



Office of the Comptroller

***Payroll Expenditure
Policy Manual***

June 28, 2002

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INTRODUCTION

Welcome to the Commonwealth Payroll Expenditure Policy Manual.

This manual provides the Commonwealth's policies on payroll expenditures as found in statute, Comptroller Policy Memos, Fiscal Year Memos, and other sources of information prepared over a number of years. It is hoped that this will be viewed as a reference for all those in the State Government who are responsible for payroll related activities, including but not limited to Department Heads, Chief Fiscal Officers and Payroll Directors.

Pursuant to Massachusetts General Laws, Chapter 7A, the Office of the Comptroller has the responsibility for establishing the state accounting system and has full authority to prescribe the requisite forms and books of accounts, which includes the classification and accounting of payroll expenditures. The purpose of the Commonwealth Payroll Expenditure Policy Manual is to provide Commonwealth Departments with guidance for the appropriate classification and processing of payroll expenditures in compliance with state finance law. The term "Department" in this manual refers to MMARS Departments, which include state agencies, boards, offices, institutions, departments, divisions, constitutional offices, independent agencies, commissions and elected offices of the Commonwealth within the Executive Branch, the Legislative Branch or the Judicial Branch.

Departments have a responsibility for establishing internal control systems and procedures which assure adherence to and compliance with the policies set forth by this office. As specified in the Internal Control Act (Chapter 647 of the Acts of 1989), internal procedures should assure safeguards, validity, completeness, timeliness, authorization, and accuracy of all information processed through the payroll systems. Departments are responsible for documenting and distributing internal procedures to their staff in order to assure compliance to these policies within their Department. Please refer to the Office of the Comptroller's *Internal Control Guide* and related material for additional information. Guidelines for bi-weekly payroll processing are detailed in the HR/Payroll Best Practices Document. These materials can be accessed through the Comptroller's web page: <http://www.osc.state.ma.us/> or <http://www.state.ma.us/osc/Payinfo/payroll.htm> and on the HR/CMS website: <http://www.hrcms.state.ma.us/>.

Where appropriate, statutes governing State finance and federal statutes are referenced within the Manual allowing the reader to identify the source and foundation of policy.

The Comptroller of the Commonwealth is responsible for designing and maintaining statewide systems which assure financial management standards. The Comptroller is authorized to approve any payroll system used in the Commonwealth, to ensure that the system is capable of transmitting accurately and timely payroll data to the state accounting system, the Massachusetts Management and Reporting System (MMARS), and that the system meets other state financial law and federal law requirements. The Office of the Comptroller is the tax clearinghouse for all statewide expenditure issues. All Forms W-2 and 1099, with the Commonwealth identification number of 04-6002284, are issued to individuals and corporations through the Commonwealth's central systems by the Office of the Comptroller.

The Commonwealth's payroll system is managed by the Office of the Comptroller and all deductions and payments are disbursed by the State Treasurer's office.

This manual covers expenditure policy relating to these payroll items:

- types of employees eligible for payment
- how to pay employees
- what payroll deductions are allowed
- payroll accounting
- payroll expenditure approval
- tax administration
- reports management and retention

- Commonwealth's payroll and labor distribution systems
- wage reporting

Departments will be required to maintain all payroll records in accordance with the confidentiality and public records requirements of Massachusetts General Law Chapters 66 and 66A as applicable.

It is our intent to provide updates to this Manual as needed. For this reason it may be more useful for the reader to access it frequently on the intranet rather than printing it for distribution. Procedural memos referenced throughout this document can be found on the Office of the State Comptroller's website: <http://www.osc.state.ma.us/> or <http://www.state.ma.us/osc/Payinfo/payroll.htm> and on the HR/CMS website: <http://www.hrcms.state.ma.us/>.

CHAPTER 1	EMPLOYEE – EMPLOYER RELATIONSHIP
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POLICY TITLE:**TYPES OF EMPLOYMENT****DATE ISSUED:****6/28/02****POLICY #:****1-1****PAGE(S):****2****POLICY**

There are three categories of individuals who provide services to the Commonwealth of Massachusetts:

- 1) State Employees - individuals appointed or elected to state positions who contribute to the State Retirement System and are eligible to participate in the group insurance programs. State employees have an employee-employer relationship with the Commonwealth. These individuals are paid through the payroll system, have tax withholding and other deductions.

State employees include regular positions, intermittent positions, seasonal positions, excess quota positions and commission/board member positions. These positions are scheduled through the Human Resources Division for Executive Departments and the applicable Human Resources Office in the Non-Executive Departments.

- 2) Contract Employees - individuals who do not occupy state positions, nor contribute to the State Retirement System or group insurance programs, but who must contribute to the Alternate Retirement System. Contract employees have employee-employer relationships pursuant to individual contracts with the Commonwealth. These individuals are paid through the payroll system, have tax withholding and other deductions.
- 3) Independent Contractors – individuals who do not occupy state positions nor contribute to the State Retirement System or Alternate Retirement System. Independent contractors do not have an employee-employer relationship pursuant to individual contracts with the Commonwealth. These individuals are paid through the accounting system with no tax withholding or other deductions.

It is the responsibility of every Commonwealth branch and Department to:

- Prior to hiring any individual, determine (using the Internal Revenue Service (IRS) form SS-8) whether or not the job responsibilities anticipated for that individual will create an employee-employer relationship. The SS-8 form can also be applied to a class of individuals and does not necessarily have to be completed separately for each individual. The IRS Form SS-8 can be found on the IRS Form and Instructions website: http://www.irs.gov/forms_pubs/forms.html
- The Immigration Reform and Control Act of 1986 (IRCA) makes it illegal for an employer to hire an unauthorized worker. Employers must comply with this requirement by verifying the identity and right to work of all employees hired after November 6, 1986. Prior to hiring any individual, employers can protect themselves by obtaining proof of the right to work in the U.S. This proof of right to work is known as Form I-9, *Employment Eligibility Verification*. This form is available at: <http://www.ins.usdoj.gov/graphics/formsfee/forms/I-9.htm>

- Check the Social Security Number. Make sure the name matches Social Security Administration records. Correct names and social security numbers (SSN) on W-2 wage reports are the keys to successful processing of the Commonwealth's annual wage report submission. Not only can the Commonwealth be subject to penalties when employee names and SSNs don't match Social Security Administration records, but also unmatched wage reports can cause earnings that are not posted to your employees' records. To verify the name and SSN match, call the SSA toll-free number for employers - 1-800-772-6270 provide Social Security Number, Date of Birth and Gender. The Commonwealth EIN is 04-6002284. Double check to make sure you have entered the SSN correctly into the payroll system
- Upon hiring or rehiring an individual verify Medicare Status. For Rehires verify that a 'break in service' has not occurred, refer to Policy #3-3 "Medicare Tax". Validate Income and Medicare taxes are appropriately withheld from wages paid to both state employees and contract employees, in amounts determined by the employees' withholding certificates and governmental withholding tax tables.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller and appropriate human resource authorities jointly establish/identify and implement the policy on Types of Employment.

AUTHORITY

801 CMR 21.00 (re: Contract Employees and Independent Contractors)
Commonwealth Procurement Policies and Procedures Handbook (re: Contract Employees and Independent Contractors)
Omnibus Budget Reconciliation Act of 1990
Federal Insurance Contributions Act (FICA)
IRS Form SS-8 "Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding"
Comptroller Memo #159A and 159B as amended
Massachusetts General Laws, Chapter 7, Section 30
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 29A
Massachusetts General Laws, Chapter 29, Section 31
Massachusetts General Laws, Chapter 30, Section 38
Massachusetts General Laws, Chapter 150E, Section 1

CHAPTER 1	EMPLOYEE – EMPLOYER RELATIONSHIP
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POLICY TITLE: STATE EMPLOYEES

DATE ISSUED: 6/28/02

POLICY #: 1-2

PAGE(S): 2

POLICY

State employees are individuals who are employed in state positions, as authorized by the applicable statute or human resource authority. Compensation for state employees includes regular salary, overtime and other financial benefits authorized in statute, collective bargaining agreements, etc. All Executive Departments are subject to the personnel rules and regulations of the Human Resources Division (HRD) for employment compensation payments. See also <http://www.state.ma.us/hrd/>.

Those Departments not subject to HRD regulations for job classification include the Legislature, Judiciary, State Treasurer, State Auditor, State Secretary, Attorney General, District Attorneys, Sheriffs, Higher Education (a small number of positions are covered), and Independent Commissions and Boards. These entities are governed by each entity's respective enabling statute, collective bargaining agreements, personnel policies, and applicable State and Federal laws.

State Employees:

- Are paid through the Commonwealth's payroll system;
- Are entitled to membership in the state retirement plan;
- Are entitled to membership in the GIC sponsored insurance programs;
- Are eligible for fringe benefits, sick, vacation or personal leave; and
- Receive a W-2 tax form

Intermittent and Seasonal employees are two categories of State Employees in Executive Departments with different rules concerning leave benefits than their regular part-time and full-time counterparts.

Per Diem Employees are employees who generally are appointed to serve on special state boards and commissions, and for whom statute provides a moderate fee to be paid to compensate them for this service. The amount of the fee or the authority to set the fee is usually described in statute; some may also be eligible for reimbursement of expenses related to their function, but these employees are not eligible for leave or other benefits. These employees do not come under the oversight of the Human Resources Division.

Intermittent Employees

Intermittent employees either work less than 50% of the hours in a workweek of a regular full-time employee in the same title, or work less than 50% of a work year of a full-time employee. Intermittent employees are not eligible for paid vacation, personal leave, sick leave, holiday pay or GIC-sponsored insurance. Please refer to the personnel rules and regulations of the Human Resources Division (HRD) for further clarification.

120-Day (960 Hour) Appointments

120-Day Appointments are considered Intermittent Employees, per Chapter 32, Section 91 M.G.L. These appointments are the re-hiring of employees who have retired from state service and are receiving a pension, either back into the position he/she vacated, to a different position in the same agency, or to a position in a different agency. These employees may not work beyond 960 hours (120 days) in a given calendar year and must cease work when the total of their pension and the salary received under the 960-hour appointment reaches the annualized salary they received at the time of retirement. They are not eligible for benefits or paid leave, but they may receive step increases upon the completion of 52 weeks of work, and they are eligible for all collective bargaining increases as well. Please refer to the personnel rules and regulations of the Human Resources Division (HRD) for further clarification.

Seasonal Employees

Seasonal employees are employees hired on a seasonal basis whose employment is for a period of ninety (90) consecutive days or more. Their eligibility for benefits is determined through applicable collective bargaining contracts.

All state employees (other than those on leave without pay) are included in the Full-Time Equivalent (FTE) count of Commonwealth staff, depending on the type of authorized state position they occupy.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller and appropriate human resource authorities jointly establish/identify and implement the policy on State Employees.

AUTHORITY

26 USC §3121 - Federal Insurance Contributions Act (FICA)
29 USC §201 - Fair Labor Standards Act
The Commonwealth of Massachusetts Expenditure Classification Handbook issued by the Office of the Comptroller, April 1999
Massachusetts General Laws, Chapter 7, Section 30
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 30, Sections 38, 45, 46 and 49
Massachusetts General Laws, Chapter 150E, Section 1

CHAPTER 1	EMPLOYEE – EMPLOYER RELATIONSHIP
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POLICY TITLE: **CONTRACT EMPLOYEES**

DATE ISSUED: **6/28/02**

POLICY #: **1-3**

PAGE(S): **2**

POLICY

Contract employees are individuals who are employed through individual contracts, as opposed to being appointed into authorized positions, as is the case for state employees. Contract Employees have an employee-employer relationship with the Commonwealth. These individuals are paid through the payroll system and have tax withholding and other deductions.

It is very important that any individuals under a contract with a Department are properly categorized as either Contract Employees or Independent Contractors.

To determine whether an anticipated contract opportunity will qualify as that of a Contract Employee contract or a contract for an Independent Contractor, a Department must, prior to selecting an individual for the contract, test the contract job requirements using the IRS Form SS-8 (Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Withholding). Note: See Policy 1-1 entitled "Types of Employment" for additional details on completing SS-8 process.

If the result of the IRS SS-8 test indicates that an employee-employer relationship exists, the Department may hire an individual for a Contract Employee contract using the standard job posting and hiring practices the Department uses for state employees.

The IRS Form SS-8 can be found on the IRS Form and Instructions website:

http://www.irs.gov/forms_pubs/forms.html

Contract Employees:

- Are not included in the Full Time Equivalent (FTE) count of Commonwealth employees;
- Are not entitled to membership in the state retirement plan;
- Are not entitled to membership in any employee insurance programs;
- Are not eligible for fringe benefits, sick, vacation or personal leave;
- Are required to contribute to the Omnibus Budget Reconciliation Act of 1990 (OBRA) Alternate Pension Plan;
- Must complete a Form W-4;
- Must complete a Form W-9 if Employee is registered on the MMARS Vendor file
- Are hired following the Department's standard Hiring Procedures
- Must execute a Commonwealth Terms and Conditions contract form;
- Must execute a Standard Contract Form; and the contract must be processed in MMARS
- Must complete a Consultant Contractor Mandatory Submission Form (if applicable); and
- Receive a W-2 tax form.

There are two types of contract employees: consultants and non-consultants.

Consultants

- Perform specialized services that are not ordinarily available from state employees and shall not be used as substitutes for state positions;
- Provide advice or services regarding matters in the field of his/her knowledge or training;
- Are paid through the Commonwealth's payroll system under subsidiaries HH and NN;

Non-Consultants

- Perform operational and client services;
- Are paid through the Commonwealth's payroll system under subsidiaries CC, JJ and MM.

Some Contract Employees in Higher Education are unionized.

Contract Employee Payroll Processing

To ensure accurate and timely payments, Departments are responsible for monitoring the MMARS Contract Employee Predictive Report (RPT647A). This report must be reviewed and all errors must be corrected prior to the final payroll processing.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller establishes/identifies and implements this policy on Contract Employees.

AUTHORITY

801 CMR 21.00
Commonwealth Procurement Policies and Procedures Handbook
29 USC §201 Fair Labor Standards Act
IRS Form SS-8 "Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding"
Omnibus Budget Reconciliation Act of 1990 (OBRA)
The Expenditure Classification Handbook issued by the Office of the Comptroller
Procurement Policy & Procedures Handbook (issued by the Operational Services Division)
Comptroller's Policy Memo #159A, 159B and 164 as amended
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 29A

CHAPTER 1	EMPLOYEE – EMPLOYER RELATIONSHIP
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POLICY TITLE: **INDEPENDENT CONTRACTORS**

DATE ISSUED: **6/28/02**

POLICY #: **1-4**

PAGE(S): **2**

POLICY

Independent contractors are individuals hired to perform professional and operational services under contracts for defined periods of time. Independent contractors do not have an employee-employer relationship with the Commonwealth.

It is very important that any individuals under a contract with a Department are properly categorized as either Independent Contractors or Contract Employees.

To determine whether an anticipated contract opportunity will qualify as a contract for an Independent Contractor or Contract Employee, a Department must, prior to selecting an individual for the contract, test the contract job requirements using the IRS Form SS-8 (Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Withholding). Note: See Policy 1-1 entitled "Types of Employment" for additional details on completing SS-8 process.

If the result of the IRS SS-8 test indicates that an employee-employer relationship does not exist, the Department must conduct a competitive procurement to select an individual for the contract. Executive Departments are required to use a Request for Response (RFR) and follow 801 CMR 21.00 to select Independent Contractors.

Independent contractors:

- Are hired in accordance with 801 CMR 21.00 or other Procurement Rules Applicable to the Department.
- Are not included in the Full Time Equivalent (FTE) count of Commonwealth employees;
- Are paid via a payment voucher (PV) out of the Massachusetts Management Accounting and Reporting System (MMARS) under subsidiaries HH, JJ, MM and NN;
- Direct their own work;
- Are not entitled to membership in a state, or any retirement plan;
- Are not entitled to membership in any employee insurance programs;
- Are not eligible for fringe benefits, sick, vacation or personal leave;
- Must complete a Form W-9 (Massachusetts Substitute W-9 Format)
- Must complete a Commonwealth Terms and Conditions Form;
- Must complete a Standard Contract Form;
- Must complete a Consultant Contractor Mandatory Submission Form (if applicable); and
- Receive a 1099 tax form.

Independent Contractors can be either Consultants or Non-consultants.

Consultants

- Perform specialized services that are not ordinarily available from state employees and shall not be used as substitutes for state positions;
- Provide advice or services regarding matters in the field of his/her knowledge or training; and
- Are paid through the Commonwealth's accounting system (MMARS) under subsidiaries HH and NN.

Non-Consultants

- Perform operational and client services; and
- Are paid through the Commonwealth's accounting system (MMARS) under subsidiaries JJ and MM.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies and implements this policy on Independent Contractors.

AUTHORITY

801 CMR 21.00
Commonwealth Procurement Policies and Procedures Handbook
IRS Form SS-8 "Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding"
The Expenditure Classification Handbook issued by the Office of the Comptroller
Procurement Policy & Procedures Handbook issued by the Operational Services Division and the Office of the Comptroller
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 29A

CHAPTER 2	THE CENTRAL PAYROLL SYSTEMS
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POLICY TITLE: **HUMAN RESOURCES COMPENSATION MANAGEMENT SYSTEM (HR/CMS)**

DATE ISSUED: **6/28/02**

POLICY #: **2-1**

PAGE(S): **1**

POLICY

The Human Resources Compensation Management System (HR/CMS) is a biweekly payroll system that supports all employees in all branches of government (with the exception of the University of Massachusetts). HR/CMS provides flexible functionality for state human resources and payroll administrators and assures conformity to state and federal financial and legal requirements. HR/CMS allows for standardized data for new hires across the Commonwealth including the reporting of EEO/AA goals, enhanced services to employees such as multiple direct deposit opportunities, and greater flexibility to administer payroll.

HR/CMS is comprised of four major subsystems:

- Human Resources
- Payroll
- Time and Labor Reporting
- Base Benefits Administration

HR/CMS is a unified, enterprise-wide, application that is run on a web platform and provides an adaptable set of functions and capabilities to meet the human resource and compensation needs of the Commonwealth.

The HR/CMS payroll interfaces biweekly with the Commonwealth's Payroll Cost Reporting System (PCRS) for funds availability editing and labor distribution. PCRS then updates the state accounting system, the Massachusetts Management Accounting and Reporting System (MMARS).

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The HR/CMS Executive Committee comprised of the Human Resources Division, the Office of the Comptroller, the Information Technical Division, the Office of the State Treasurer, the Executive Office for Administration and Finance, the Board of Higher Education, the Group Insurance Commission, the Trial Court and the Supreme Judicial Court jointly establish/identify and implement the policy on HR/CMS.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 31

CHAPTER 2	THE CENTRAL PAYROLL SYSTEMS
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POLICY TITLE: **ENTERPRISE MANAGEMENT and PERFORMANCE IN ADMINISTRATIVE COMPUTING (E*MPAC)**

DATE ISSUED: **6/28/02**

POLICY #: **2-2**

PAGE(S): **1**

POLICY

Enterprise Management and Performance in Administrative Computing (E*MPAC) is a central payroll system that supports all employees at the University of Massachusetts campuses. E*MPAC combines the efficiencies of a client server application to central payroll processing and assures the system conforms to state, federal and University financial and legal requirements. E*MPAC also allows for flexible implementation of decentralized campus policies that report deduction processing, dues schedules, fee schedules, and categorizations (such as affirmative action or employee types).

University personnel are responsible for upholding all Commonwealth Payroll Expenditure Policies. Each campus has total responsibility for collection and input of all payroll and personnel data, printing of system-generated reports, creation of ad hoc reports, downloading of data for use by local reporting systems, and maintenance of all campus tables.

Authority to operate E*MPAC has been delegated to the University of Massachusetts by the Office of the Comptroller. To ensure data integrity, it is required that both HRCMS and E*MPAC maintain table values consistent with the Commonwealth's time and record keeping of payroll. Any changes within E*MPAC must be approved by the Office of the State Comptroller and UMS.

E*MPAC interfaces bi-weekly with the Commonwealth's Payroll Cost Reporting System (PCRS) for funds availability editing and then updates the state accounting system, the Massachusetts Management Accounting and Reporting System (MMARS). This ensures compliance of the UMASS systems with the state's payroll and accounting systems.

APPLICABILITY

This policy applies to the University of Massachusetts.

RESPONSIBLE PARTY

The Office of the Comptroller and the University of Massachusetts establish/identify and implement the policy for E*MPAC payroll expenditures.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 75, Section 10

CHAPTER 2	THE CENTRAL PAYROLL SYSTEMS
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POLICY TITLE: PAYROLL COST REPORTING SYSTEM (PCRS)

DATE ISSUED: 6/28/02

POLICY #: 2-3

PAGES(S): 5

POLICY

The Payroll Cost Reporting System (PCRS) checks the availability of funds and verifies that the account number, subsidiary, Department and Secretariat match the legislatively authorized information as appropriated in the corresponding General Appropriation Act, supplemental appropriation or other general or special law as loaded in the state accounting system (MMARS). PCRS provides management cost categories from the accounting system and a Department defined labor distribution facility. PCRS cost accounting data will always be in sync with the state accounting system (MMARS).

PCRS functionality is outlined below. More detail can be found in the PCRS Procedures Manual located on the Comptroller's website:

http://www.state.ma.us/osc/Payinfo/payroll/PCRS_manual/pcrs_manual.htm

PCRS is comprised of five major subsystems:

- Rules
- Funds Availability
- Distribution
- Adjustments
- On-line information

Statutory Rules

Statutory rules requested by Departments to transfer payroll expenditures by employee position or account must be approved by the Office of the Comptroller annually. All added, modified, or deleted rules are stored in the rules audit file. Statutory compliance (account specific, alternate account, and position assigned) rules tables allow Departments to request annual approval of account control settings and supporting relationships between accounts and positions. Approval for statutory compliance rules is based upon the authorizing language that governs the expenditure of funds. For appropriated funds, this authorization is in the current fiscal year's General Appropriation Act (GAA). For capital appropriation accounts and federal grants, the authorization is derived from the legislative language that establishes and governs the purpose of the funding and reporting requirements. For trust accounts, the authorization is derived from the bylaws that establish and govern the purpose of the funding and reporting requirement. The following is a list of account types and the governing language for each:

01 - Operating Appropriation Accounts – authorized by the GAA

02 - Capital Appropriation Accounts – authorized by capital bond appropriations

03 - Trust and Other Nongovernmental, Nonappropriated Accounts – authorized in general or special law and further detailed in trust agreements

04 - Federal Grant Accounts and Intragovernmental Service Fund Accounts - authorized in special sections of the GAA and grant agreements with the federal government.

To submit statutory rules for approval, Departments will enter their rules prior to the beginning of the fiscal year, complete PCRS Rules Request Forms, and submit all the relevant documentation to the Payroll Unit at the Office of the Comptroller. The Office of the Comptroller will review and approve rules submitted by Departments, based upon the governing language which authorizes the expenditure. Instructions on how to fill out the form can be found in the PCRS Procedures Manual.

Prior to the submission of PCRS Rules Request Forms, please refer to the [“Guidelines for PCRS Rules Applications”](#) on page 23.

PCRS Rules Request Forms can be found on the Comptroller’s website:

<http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm>

(For Cross Departmental Rules only)

<http://www.state.ma.us/osc/Payinfo/payroll/PCRSrulesForm.pdf>

Funds Availability

State finance law mandates that payroll may be released only when sufficiently funded. PCRS holds payments at the account level. This means that each account must be able to support all payroll associated with it. Otherwise, if even one employee payment cannot be supported, all payments within the account will be held until the funding issue is resolved. It is the Department’s Chief Fiscal Officer’s responsibility to ensure that there are sufficient funds to compensate employees for services rendered.

Conditional Payrolls

If funds are not available on MMARS to meet the payroll, a conditional payroll occurs. The Office of the Comptroller and Departments are notified online that a conditional payroll exists and payroll payments are held until funding issues are resolved.

Iterative processing is provided to enable the Office of the Comptroller and the Office of the Treasurer to release unfunded payrolls once funding issues are resolved.

Predictive Payroll Reports are provided to alert Departments of potential conditional payrolls. Departments are responsible for monitoring predictive reports in order to assure that payrolls will process successfully.

PCRS Predictive Reports

Pred HR/CMS Insufficient Funds Emp Detail - Curr FY (CTPC1A01) (PCRS 01)
Pred HR/CMS Insufficient Funds Acct Detail - Curr FY (CTPC1A02) (PCRS 02)
Pred HR/CMS Payroll Account Status – Curr FY (CTPC1A30) (PCRS 26)
Pred HR/CMS Insufficient Funds Emp Detail - Prior FY (CTPC1B01) (PCRS 01)
Pred HR/CMS Insufficient Funds Acct Detail - Prior FY (CTPC1B02) (PCRS 02)
Pred HR/CMS Payroll Account Status – Prior FY (CTPC1B30) (PCRS 26)

In the event that a conditional payroll occurs, the reports listed below provide information to be used for account resolution.

PCRS Production Reports

Prod HR/CMS Insufficient Funds Emp Detail - Curr FY (CTPC3A01) (PCRS 01)
Prod HR/CMS Insufficient Funds Acct Detail - Curr FY (CTPC3A02) (PCRS 02)
Prod HR/CMS Account Reassignment From-To – Curr FY (CTPC3A03) (PCRS 03)
Prod HR/CMS Account Reassignment To-From – Curr FY (CTPC3A04) (PCRS 04)
Prod HR/CMS Insufficient Funds Emp Detail - Prior FY (CTPC3B01) (PCRS 01)
Prod HR/CMS Insufficient Funds Acct Detail - Prior FY (CTPC3B02) (PCRS 02)
Prod HR/CMS Account Reassignment From-To – Prior FY (CTPC3B03) (PCRS 03)
Prod HR/CMS Account Reassignment To-From – Prior FY (CTPC3B04) (PCRS 04)

Releasing Held Payments

Departments are responsible for contacting the Office of the Comptroller when funding issues are resolved so that payroll direct deposits and/or checks can be released. Released payments will be either in the form of a direct deposit or check, depending on which form of payment the employee has already elected to receive.

Released direct deposits are processed through the Automated Clearing House (ACH) the day after release. Posting to the employee's account occurs within two business days. Advices, and released checks, are mailed to the employee's designated mailing address.

Distribution

Labor Distribution

PCRS provides for the distribution of employees' time and costs to be distributed to MMARS accounting categories, Secretariat defined categories and Department defined categories. These categories do not need Comptroller approval. Examples of the types of labor distribution cost categories that are available in PCRS are:

Secretariat Defined Categories – these two categories allow Secretariats to define and require specific fields/values for all employees that report to that Secretariat. Secretariats are responsible for initiating and maintaining the tables along with distributing internal procedures to their staff on the use of these fields.

Department Defined Categories – these six categories allow Departments to define and require specific fields/values for all employees that report to that Department. Departments are responsible for initiating and maintaining the tables along with distributing internal procedures to their staff on the use of these fields.

MMARS Accounting Categories – these categories allow Departments to require the use of MMARS non-statutory cost accounting fields, to tailor labor cost accounting exception screen displays, and to indicate which tables should be rolled over at fiscal year transition. The types of display and maintenance tables available in PCRS are:

Org Code Table: enables a Department to limit the use of MMARS organization codes within PCRS.

Program Code Table: enables a Department to designate the use of MMARS program codes within PCRS.

Program Code/Dept-1 Table: enables a Department to establish a relationship between program codes and values on their Department defined table 1.

Non-statutory Requirements: enables a Department to choose whether or not to make a selected non-statutory field required Department wide.

Exception Screen Layout: enables a Department to select the layout of the exception screen.

Fiscal Year Rollover: enables a Department to choose the tables they want rolled over at fiscal year transition time.

Redistribution of Payroll

Each state employee has a default record in PCRS which determines where payroll charges will be applied in labor history and MMARS.

Departments can modify these defaults, permanently, or on an exception basis, by using the following PCRS features:

Cost Accounting Exception Posting
Cost Accounting Default Distribution

Adjustments

All Departments are responsible for processing their payroll expenditures and adjustments through PCRS in order to assure that balance is maintained between PCRS and MMARS. The types of adjustment transactions that can be used are listed below:

Expenditure Correction (XA)
Payroll Reject (XD)
Insufficient Funds (XF)
Expenditure Refund (XE)
Prior Year Refund (XC)
User Defined Correction (XU)

On-line Information

Users can access summary payroll data for individuals, or for their Departments by Organization code, appropriation, project and program. More detailed information is available via the PCRS Labor History tables in the Commonwealth's Information Warehouse.

APPLICABILITY

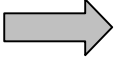






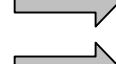


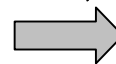
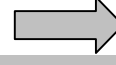

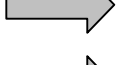


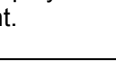
This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies and implements this policy on PCRS.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 14B
Massachusetts General Laws, Chapter 29, Section 20
Massachusetts General Laws, Chapter 29, Section 27
Massachusetts General Laws, Chapter 29, Section 29
Massachusetts General Laws, Chapter 29, Section 31

Guidelines for PCRS Rules Applications			
Position Account		Distribution Account	Required Documentation
State 01		State 01	One account's language must refer to the other accounts and each account must include personnel OR Program must be the same for each account and each account must include personnel.
State 01		Federal 04	Federal Budget includes personnel or administration.
State 01		Bond 02	Bond authorization or account language must include personnel or administration.
State 01		Trust 03	Trust agreement must include personnel or administration.
State 01		Retained Revenue	Retained Revenue account language must include personnel and, when applicable, should refer to the position assigned account.
Federal 04		State 01	State account must be a "match" account and include personnel OR State account language must support the federal program and include personnel.
Federal 04		Federal 04	Federal Budget includes personnel or administration.
Federal 04		Bond 02	Bond authorization or account language must include personnel or administration.
Federal 04		Trust 03	Trust agreement must include personnel or administration.
Bond 02		State 01	One account's language must refer to the other account and each account must include personnel (administration for Bond) OR language must include explicit directives on the use of accounts.
Bond 02		Federal 04	Federal Budget for Distribution Account includes personnel or administration.
Bond 02		Bond 02	Bond authorization or account language must include personnel or administration.
Bond 02		Trust 03	Trust agreement must include personnel or administration.
Trust 03		State 01	State account's language must refer to the trust account and each account must use personnel.
Trust 03		Federal 04	Federal Budget includes personnel or administration.
Trust 03		Bond 02	Bond authorization or account language must include personnel or administration.
Trust 03		Trust 03	Trust agreement must include personnel or administration.

Note: If an employee is paid 50% or greater from one account, he or she should be appointed (hired) into a position in that account.

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: PAYROLL DEDUCTION ADMINISTRATION

DATE ISSUED: 6/28/02

POLICY #: 3-1

PAGE(S): 6

POLICY There are two types of payroll deductions: mandatory and voluntary. All deductions must be authorized by statute or other legal authority.

Mandatory Deductions

Mandatory payroll deductions are mandated by statute and can either be pre or post tax deductions. Mandatory deductions include federal and state taxes, retirement contributions, and wage garnishments. These deductions are transferred by TRE to the proper Commonwealth accounts or Payees.

Voluntary Deductions

Voluntary payroll deductions are for programs that are legislatively authorized as either a Commonwealth program or a program in which the Commonwealth's fiduciary responsibility is limited solely to ensuring that the employee's requested deduction is disbursed to the designated authorized vendor. Voluntary deductions are payroll deductions that an employee can authorize to be taken from their net pay and have it paid directly to an authorized vendor. They can either be pre or post tax deductions.

Programs sponsored by the Commonwealth include, but are not limited to: health programs sponsored by the Group Insurance Commission, the Dependent Care Assistance Program offered by the Group Insurance Commission, and the Deferred Compensation Program offered by the Office of the State Treasurer. Payroll deductions for which the Commonwealth merely has a disbursement role include Savings Bonds, COMECC, dental/vision insurance, special insurance programs endorsed by recognized state employee organizations, union dues and agency fees.

Deduction Hierarchy

Mandatory and voluntary payroll deductions are taken from an employee's pay in this order:

Federal Tax - mandatory deduction for federal tax based on employee's Form W-4.

Federal Additional Tax - voluntary deduction for additional federal tax authorized by employee on Form W-4.

Medicare Tax – mandatory deduction for Medicare tax for employees hired on or after 4/1/86.

Medicare Additional Tax – voluntary deduction for additional Medicare tax authorized by employee.

State Tax – mandatory deduction for state tax based on employee's Form W-4 or Form M-4.

State Additional Tax – voluntary deduction for additional state tax authorized by employee on Form W-4 or Form M-4.

Regular Retirement – mandatory pre-tax deduction for regular retirement (both regular and higher ed) contribution for state employees only.

Additional Regular Retirement – mandatory additional percentage of pre-tax retirement deduction on an employee's wages over a specified base (e.g. \$30,000 or \$45,000 per year). Sometimes applicable based on hire date.

Alternate Retirement – mandatory pre-tax deduction for alternate retirement for contract employees.

Wage Garnishments – mandatory post-tax deduction to satisfy a bankruptcy order, a child support order, IRS tax levy, DOR tax levy, Spousal Support, Student Loan repayment, DTA recovery of overpayments, DMA reimbursements of medical assistance and court ordered garnishment.

Makeup Alternate Retirement - voluntary post-tax deduction for alternate retirement that a contract employee is paying back (makeup).

Extra Regular Retirement – upon approval from the Retirement Board, a mandatory pre-tax deduction amount for employees who need a temporary adjustment to their contribution rate. Required due to a system processing or data entry error on the original rate.

Emergency Advance Payback – mandatory deduction for an employee who was given an advance from the Department's DynaCash account in the previous pay period due to unpaid time.

Makeup Regular Retirement – upon approval of the Retirement Board, a voluntary pre-tax deduction for an employee who wants to buy back months/years of eligible retirement benefit after having had a break in their state service.

Basic Insurance – voluntary pre-tax deduction for health insurance premiums and voluntary post-tax deduction for life insurance premiums for employees.

Optional Life Insurance – voluntary post-tax deduction to purchase optional life insurance.

Long Term Disability (LTD) Insurance – voluntary post-tax deduction to purchase long-term disability insurance.

Dental/Vision Insurance – voluntary post-tax deduction for dental/vision insurance premiums –for management, confidential employees, Judicial employees, constitutional offices and other authorized Departments not covered by their collective bargaining agreements.

Special Insurance Deductions – voluntary post-tax deduction for the purchase of special insurance (based on union endorsement).

Union Dues – mandatory post-tax deduction for union dues for all employees who belong to a bargaining unit.

Agency Service Fees – mandatory post-tax deduction for agency service fees for those employees who choose not to join a union.

Voluntary Union Deductions – voluntary post-tax deduction for union sponsored activities.

Dependent Care Assistance Program (DCAP) – voluntary pre-tax deduction for dependent care assistance program. Subject to an annual limit.

DCAP Fee – mandatory post-tax deduction for an administrative fee if employee is enrolled in the DCAP program.

Tax Shelter Annuity (TSA) – voluntary pre-tax contribution to a tax sheltered annuity plan for retirement savings. Subject to an annual limit.

Deferred Compensation – voluntary pre-tax deduction to a deferred retirement savings plan. Subject to an annual limit.

Savings Bonds – voluntary post-tax deduction to purchase savings bonds.

COMECC – voluntary post-tax deduction for a contribution to the Commonwealth of Massachusetts Employees Charitable Campaign (COMECC).

MBTA Passes – voluntary deduction for MBTA transit pass (bus, subway, boat and rail). All, or a portion, of this deduction, (depending on the pass value) is treated as a federal pre-tax benefit.

UFUND – voluntary post-tax contribution to a college tuition savings plan.

Commonwealth Fees – voluntary post-tax deduction to satisfy an authorized fee owed by employees to the Commonwealth.

DEDUCTION ELIGIBILITY CHART

Deduction	State Employees	Contract Employees
Federal Income Tax	X	X
Medicare Tax *mandatory deduction for employees hired after March 31, 1986	X*	X*
State Income Tax	X	X
State Retirement	X	
Higher Ed Optional Retirement	X	
Extra Retirement – Adjustments	X	
Alternate Retirement *If employee not eligible for State Retirement, they must contribute to Alternate Retirement	X*	X
Wage Garnishments	X	X
Emergency Advance Payback	X	X
Make Up Retirement	X	
Basic Insurance	X	
Optional Life Insurance	X	
Long Term Disability	X	
Dental/Vision Insurance	X	
Special Insurance *Related bargaining units	X*	X*
Union Dues	X	X (for certain unionized faculty)
Agency Service Fees	X	
Voluntary Union Deductions	X	
DCAP	X	X
TSA *Are offered to all employees of community colleges, state colleges, universities, and other qualified individuals employed in an educational capacity	X*	X*
Deferred Comp	X	X
Savings Bonds	X	X
COMECC	X	X
MBTA Passes	X	X
U.Fund	X	X
Commonwealth Fees	X	X

Funded/Unfunded Processing

All mandatory and voluntary deductions, with the exception of Savings Bonds, are subject to funded/unfunded processing. If the payroll account from which the deduction amount to be taken is unfunded at the time of payroll processing, the deduction will not be taken. Once the account is funded, the deduction will be processed and payment will be sent to the appropriate payee.

Payroll Deduction Responsibilities

The Commonwealth is responsible for ensuring an employee's voluntary and mandatory payroll deduction is disbursed to the designated authorized vendor and for making changes to mandatory deductions as ordered by the cognizant authority. In keeping with that fiduciary responsibility, each affected party has responsibilities that are outlined below:

Employee Responsibilities

The employee is solely responsible for:

- Initiating new deductions, changing deductions or canceling deductions with an authorized vendor.
- Providing his/her payroll Department with the necessary authorization when starting or changing a payroll deduction.
- Providing his/her payroll Department with the necessary discontinuation form when ending a payroll deduction.
- Knowing what type of policy/account they have, who their authorized vendor is, what their policy/account contains, and the amount they have authorized to be deducted through the payroll system.

Payroll Department Responsibilities

The payroll Department is solely responsible for:

- Ensuring that only court ordered or legislatively authorized deductions are processed.
- Verifying, entering or discontinuing an employee's voluntary payroll deduction based on authorization provided to them by the employee.
- Making changes or canceling an employee's voluntary deduction only with written authorization from the employee, unless a deduction is found not to be court ordered or legislatively authorized.
- Rectifying immediately, upon discovery, any data entry error made by the payroll Department and recapturing any misdirected payments on behalf of the employee.

The payroll Department is not responsible for knowing what type of policy/account an employee has or what their policy/account contains.

Authorized Vendor Responsibilities

The authorized vendor is responsible for:

- Correctly applying payments received from the payroll system of the Commonwealth on behalf of its employee(s).
- For Special Insurance deductions only: verifying that an employee is part of a bargaining unit that endorses said authorized vendor prior to discussing a payroll deduction for that employee.

Office of the Comptroller Responsibilities

The Office of the Comptroller is responsible for:

- Reviewing and approving/disapproving all payroll deduction requests from Departments in accordance with statute or other legal authority.
- Providing a system to enable Departments to accurately process deductions on behalf of employees.
- Establishing clear guidelines, communicating changes in policy and providing payroll systems that can accurately and completely remit authorized deductions to authorized vendors.
- Maintaining the Vendor and Payee tables.

Vendor Payment Table

The Vendor Payment Table lists all vendors authorized by the Office of the Comptroller. The Office of the Comptroller manages the Vendor Payment table and verifies that the authorized vendor is part of an authorized deduction program.

All deductions will be paid to authorized vendors by Electronic Funds Transfer (EFT). EFT payments will require a bank account number and bank routing number for all vendors established on the Vendor Payment Table. Departments must obtain this EFT information from the authorized vendors.

Authorized vendors can have multiple deduction codes associated with their vendor id. An authorized vendor can request that payments associated with each deduction code under their purview be sent to separate banks. The authorized vendor can also have all their deduction payments roll up into one payment. The flexibility of the payroll system can handle both situations.

Departments who wish to add an authorized vendor to the Vendor Payment Table must submit an Authorized Vendor Request Form to the Comptroller's Payroll Unit. If the authorized vendor is verified as part of an authorized program, the Payroll Unit will add the vendor to the vendor table. If the request is not authorized, the Comptroller's Payroll Unit will return the request form to the Department with the reason for denial.

Garnishment Payee Table

Employees with mandatory garnishment deductions (authorized by a court order, tax levy or other legal entity) will have their payments going to payees listed on the Garnishment Payee Table. The Garnishment Payee Table is separate from the Vendor Payment Table and only includes these payable entities: the IRS, DOR, Spousal Support payees, DMA, DTA, Student Loan payees, bankruptcy payees and other payees authorized by law. The Office of the Comptroller manages the Garnishment Payee table.

Garnishment deductions to government payees (IRS, DOR, DMA, DTA, Student Loan payees) will be paid by Electronic Funds Transfer (EFT). For other payees, such as court ordered spousal support, Departments should obtain a bank account number and bank routing number for EFT processing.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies and implements the policy on Payroll Deduction Administration.

AUTHORITY

26 USC §3402(a)(1) – Federal Withholding Tax
26 USC §3121(u)(2) – Medicare Tax (FICA)
26 USC §219 – Computation of Taxable Income, Additional Itemized Deductions
26 USC §404 – Deferred Compensation
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 62B, Section 2 – State Withholding Tax
Massachusetts General Laws, Chapter 32, Sections 22-25 – Regular Retirement
Massachusetts General Laws, Chapter 15A, Section 40 – Alternate Retirement
Massachusetts General Laws, Chapter 29, Section 23-25, 31 – Salary Advances
Massachusetts General Laws, Chapter 32A, Sections 4,5,8,10C – Basic Insurance
Massachusetts General Laws, Chapter 149, Section 178B – Optional Deductions
Optional Deduction Policy issued by the Office of the Comptroller
Massachusetts General Laws, Chapter 180, Section 17A – Union Dues
Massachusetts General Laws, Chapter 180, Section 17G – Agency Service Fees
IRS Code Title 26, Section 129 – Dependent Care Assistance Program
IRS Publication 571, “Tax-sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations”
Massachusetts General Laws, Chapter 29, Section 64 – Deferred Compensation
Massachusetts General Laws, Chapter 180, Section 17F – Contributions to Mass Independent Health Agencies
Massachusetts General Laws, Chapter 180, Section 17J – Insurance and Employee Benefits
Massachusetts General Laws, Chapter 154, Section 8 – Savings Bonds
Massachusetts General Laws, Chapter 180, Section 17B - COMECC
Massachusetts General Laws, Chapter 180, Section 17H – MBTA Passes
Massachusetts General Laws, Chapter 180, Section 17L – State Tuition Program
Commonwealth Fees – 801 CMR 4.03

Note: Please refer to Chapter 3 “Wage Garnishments” for authority for wage garnishments.

CHAPTER 3 INVOLUNTARY AND VOLUNTARY DEDUCTIONS**POLICY TITLE: FEDERAL INCOME TAX****DATE ISSUED: 6/28/02****POLICY #: 3-2****PAGE(S): 2****POLICY**

The Internal Revenue Service (IRS) requires employers to withhold federal income tax from wages paid to their current and former employees based on the withholding exemptions claimed on the employee's Form W-4 (Employee's Withholding Allowance Certificate).

Employee's Withholding Allowance Certificates (Forms W-4)

Employers are required to provide Forms W-4 to their employees and the employees are required to submit to their employer, upon hire, a completed Form W-4 "Employee's Withholding Allowance Certificate". This certificate provides the basis for determining the proper amount of tax to withhold from an employee's wages. If an employee does not submit a completed Form W-4, federal income tax will be withheld at the single status rate, with no withholding allowances.

Every Commonwealth payroll Department is required to keep Form W-4's on file for their current employees for at least three years after the date the tax was due.

Form W-4 withholdings must be put into effect by the employee's payroll Department for the first payroll period ending after the Form W-4 is submitted. A Form W-4 remains in effect until the employee submits a new one.

If employees wish to make changes to their withholding allowances, they must submit a new Form W-4 to their payroll Department. This Form W-4 must be put into effect by the payroll Department no later than the beginning of the first payroll period ending on or after the 30th day after the form is received by the Payroll Department.

The Commonwealth is required to provide each employee with a yearly Form W-2 statement detailing the total amount of federal tax deducted from their wages.

Form W-4's can be downloaded from the IRS Forms and Instructions website:

http://www.irs.gov/forms_pubs/forms.html

Claiming Exempt on Form W-4

Employees (including Non Resident Aliens) who claim an exemption from tax withholding on their Form W-4 must submit a new Form W-4 annually, attesting to their exempt status. Claims of exemption can be in effect for a maximum of one calendar year at which time the employee must re-file to claim Exempt status. If the employee does not submit a new Form W-4 for the new calendar year by February 15th of that year, they will have their tax status reset to the single status rate, with no withholding allowances.

Supplemental Wages

Most wages are taxed at the federal level using the IRS approved “annual” tax method. When employees receive payments called “supplemental wages”, a special rate is applied to withhold federal income tax from these payments at a rate specified by the IRS. This rule is called “supplemental” tax method. Examples of supplemental wages include overtime, bonuses, awards, settlements, judgments, retroactive pay, and sick and vacation leave payouts.

An employee could have both the annual and supplemental tax methods applied to their wages in a pay period depending on the types of earnings they receive.

Earned Income Credit Advance Payment Certificates (Forms W-5)

Employees who want to take advantage of advance Earned Income Credit (AIEC) payments must file a Form W-5, “Earned Income Credit Advance Payment Certificate” attesting to their eligibility for the advance payments.

Forms W-5 must be put into effect by the employee’s payroll Department for the first payroll period ending after the Form W-5 is submitted. Forms W-5 are only in effect for one calendar year. If a new Form W-5 is not filed by January 1st of the new calendar year, the payroll Department must stop making advance EIC payments.

Form W-5’s can be downloaded from the IRS Forms and Instructions website:

http://www.irs.gov/forms_pubs/forms.html

Federal Withholding Tax:

- Is administered by the Internal Revenue Service;
- Is a mandatory deduction for Commonwealth employees
- Requires a Form W-4 (and a Form W-5 for AIEC payments); and
- Is deducted in every biweekly pay period.

The Commonwealth is responsible for withholding employment taxes in accordance with employee’s official W4 Withholding Allowances and the employee is responsible for confirming tax withholdings are taken. Adjustments to withholdings can be handled in subsequent payroll periods prior to the end of the tax year. See section on Tax Refunds.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Internal Revenue Service establishes/identifies the policy on Federal Income Tax. The Office of the Comptroller implements said policy for Commonwealth employees.

AUTHORITY

26 USC §3507(b)(e)
29 CFR §516.5
IRS Publication 15, “Circular E, Employer’s Tax Guide”
IRS Publication 15-A, “Circular E, Employer’s Supplemental Tax Guide”
IRS Publication 919, “How Do I Adjust My Tax Withholding?”
IRS Publication 525 Taxable and Non-Taxable Income
IRS Publication 17 Your Federal Income Tax Guide
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 58, Section 28B
Massachusetts General Laws, Chapter 58, Section 28A

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS**POLICY TITLE:** MEDICARE TAX**DATE ISSUES:** 6/28/02**POLICY #:** 3-3**PAGE(S):** 7**POLICY:** **Social Security**

Employees of the Commonwealth are not subject to Social Security tax in accordance with a Section 218 agreement entered into by the Commonwealth and the U.S. Secretary of Health and Human Services in 1952.

Medicare

Departments are responsible for determining and/or verifying the Medicare tax status of each of their employees, and entering that status correctly in HR/CMS. This requires confirming whether an employee has a concurrent job and ensuring that both jobs have the same/correct Medicare status in HR/CMS.

Employees of the Commonwealth may be subject to the Medicare tax for hospital insurance coverage. The Consolidated Omnibus Budget and Reconciliation Act (COBRA), which became law in April 1986, provides that governmental employees, both state and contract employees, hired after March 31, 1986, are entitled to participate in Medicare health insurance coverage and are required to contribute the Medicare portion of the FICA tax. The governmental employer is, in turn, required to match the amount of the employee's contribution. Each Department is assessed the cost of the employer paid portion of Medicare tax applicable to their employees. Certain services are excluded from the Medicare tax. These exclusions pertain regardless of the date the employee was hired. The following employees or services are not subject to Medicare tax:

- Individuals hired to relieve unemployment;
- Patients or inmates working in hospitals, homes or other institutions;
- Services performed in a local college club, fraternity or sorority by students enrolled and attending classes at such school;
- Services performed in a local school, college or university by students enrolled and attending classes at such school;
- Services performed as a student nurse in the employ of a hospital or a nurse's training school by an individual who is enrolled and is regularly attending classes in a nurse's training school chartered or approved pursuant to state law;
- Services performed by a duly ordained, commissioned or licensed minister of a church in the exercise of his/her ministry;
- Temporary workers hired for fire, snow, flood or similar emergencies; and
- Election officials or workers receiving less than \$100 in a calendar year for such services.

Exemptions for Continuing Employment

(Otherwise known as "Break In Service")

If an employee is not covered by one of the Medicare exclusions listed above, it must be determined whether the exemption for continuing employment applies. This determination is made as follows:

An employee hired before April 1, 1986 by a Commonwealth employer, who transfers after March 31, 1986 to another Commonwealth employer, is exempt from the

Medicare tax provided that there was continuous uninterrupted employment with the Commonwealth (IRS Revenue Ruling 86-88). An interruption shall include a break in service of one business day or more.

The question of whether an employment relationship has been interrupted is a question of fact that must be determined on the basis of all relevant facts and circumstances. Two examples of no interruption of the employee's employment relationship are:

- 1.) Employee transfers from a Commonwealth employer to another Commonwealth employer, both of which use the same Employer Identification Number (EIN) for the purposes of withholding, paying and reporting the federal income taxes of employees. Employees with a job action of "Transfer" automatically have their Medicare tax status value carried forward from their previous Commonwealth job record. If the transfer is treated as a "Hire" or "Rehire" in HR/CMS, the Medicare tax status information would **not** be carried forward from his/her previous Commonwealth job record. The new Department is responsible for determining the Medicare tax status for the new employee with the former Department. Please refer to "[Guidelines for Determining Medicare Tax Status](#)" for more information on breaks in service.
- 2.) Employee hired before April 1, 1986 into a Commonwealth Department. Employee starts a part time job after April 1, 1986 with another Commonwealth employer, who uses the same Employer Identification number for tax reporting as the original Department. The employee works both jobs concurrently (primary and secondary). This kind of employment is most common in higher education Departments.

An employee does NOT qualify for the Medicare tax exemption if:

- it is the employee's first job with the Commonwealth; they are subject to Medicare tax. Employees with a job action of "Hire" or "Rehire" automatically have their Medicare tax status value default to Medicare only ("M").
- the employee transfers from any other political subdivision employer (local municipal, county, authorities, federal or another state) to the employ of the Commonwealth after March 31, 1986.
- the employee transfers from a Commonwealth employer to any other political subdivision employer (local, municipal, county, authorities, federal or another state) after March 31, 1986.

Only Commonwealth employees, hired before April 1, 1986, who transfer from one Department to another Department, without an interruption in the employment relationship with the Commonwealth, may continue to be exempted from Medicare tax deductions.

Refunding of Medicare Tax

If a Department determines that an employee is owed a current or prior year Medicare tax refund, the Department is required to submit a completed "Medicare Tax Refund Request" form, with the appropriate attachments, to the Office of the Comptroller for each tax year affected. Medicare tax refunds can only be processed for the current tax year, and the three consecutive prior tax years.

The "Medicare Tax Refund Request" form can be found on the Comptroller's website

<http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm>

Chargebacks

In order for the Office of the Treasurer to fulfill its obligation to match the amount of the employee's Medicare Tax contribution, there is a biweekly chargeback process for each state Department.

Matching Medicare tax contributions are calculated for employees who are subject to Medicare tax and are charged to each Department's DD or 00 subsidiary through the IE/IV process and then transferred to the Treasurer's Medicare Tax account. The Treasurer's office then uses this account to pay the employer's portion of the Medicare tax contributions due on behalf of all employees to the Internal Revenue Service.

Medicare Tax:

- Is administered by the Social Security Administration (SSA) and the Internal Revenue Service (IRS);
- Is a mandatory deduction for Commonwealth employees hired after March 31, 1986; and
- Is deducted in every biweekly pay period.
- Check the Social Security Number. Make sure the name matches Social Security Administration records. Correct names and social security numbers (SSN) on W-2 wage reports are the keys to successful processing of the Commonwealth's annual wage report submission. Not only can the Commonwealth be subject to penalties when employee names and SSNs don't match Social Security Administration records, but also unmatched wage reports can cause earnings that are not posted to your employees' records. To verify the name and SSN match, call the SSA toll-free number for employers - 1-800-772-6270 provide Social Security Number, Date of Birth and Gender. The Commonwealth EIN is 04-6002284. Double check to make sure you have entered the SSN correctly into the payroll system
- The first \$2,000 of combined Retirement and Medicare Withholdings are pre-tax for State Withholdings

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Social Security Administration (SSA) and the Internal Revenue Service (IRS) establishes/identifies the policy on Medicare Tax and administers the Internal Revenue Code and Social Security Act.

The Office of the Comptroller, in accordance with federal guidelines, establishes/identifies and implements the policy for the Commonwealth in regards to which employees are exempt from Medicare Tax and collect the Medicare tax chargeback on behalf of the Commonwealth.

AUTHORITY

26 USC §3121 (FICA)
IRC Section 3121(b)(10)(A)
Consolidated Omnibus and Reconciliation Act of 1986 (COBRA), Section 13205
IRS Revenue Ruling 86-88
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
IRS Publication 963 Federal-State Reference Guide Social Security Coverage and FICA Reporting by State and Local Government Employers

Guidelines For Determining Medicare Tax Status

The term “Employee” used in this document refers to both state and contract employees.

#	Scenario	Has Break In Service Occurred?	Explanation	Employee's Medicare Tax Status Setup in HR/CMS
	First Time Hires			
1	Employee was hired before April 1, 1986 into a Commonwealth Department and has worked continuously for that Department since that time.	No	Employee was hired before April 1, 1986, which qualifies them as exempt from Medicare tax withholding.	Exempt (E)
2	Employee is hired on or after April 1, 1986 into a Commonwealth Department.	N/A	Employee was hired on or after April 1, 1986, which requires them to pay Medicare tax.	Medicare only (M)
	Transfers			
3	Employee was hired before April 1, 1986 into a Commonwealth Department. He/she transfers after April 1, 1986 from one Commonwealth employer to another Commonwealth employer (both of which use the same Employer Identification number for tax reporting). The employee begins working for the new Commonwealth employer on the next business day after leaving their last Commonwealth employer.	No	If employee begins work with the new Commonwealth employer on the next business day after leaving their old Commonwealth employer, no break in service has occurred.	Exempt (E)

#	Scenario	Has Break In Service Occurred?	Explanation	Employee's Medicare Tax Status Setup in HR/CMS
	Concurrent Jobs			
4	Employee was hired before April 1, 1986 into a Commonwealth Department. He/she transfers after April 1, 1986 from one Commonwealth employer to another Commonwealth employer (both of which use the same Employer Identification number for tax reporting). The employee begins working for the new Commonwealth employer after taking a week off between jobs.	Yes	If employee takes time off before going to work for their new Commonwealth employer that is considered a break in service.	Medicare only (M)
5	Employee was hired before April 1, 1986 by an authority or a local, municipal, federal, county or other state government. He/she was hired after April 1, 1986 to a Commonwealth employer, who does <u>not</u> use the same Employer Identification number for tax reporting.	Yes	Employee is going to work for a Commonwealth employer, who does not report under the same Employer Identification Number (EIN) as the local, municipal, authorities, federal, county or another state, therefore it is a new employee relationship.	Medicare only (M)
6	Employee was hired before April 1, 1986 into a Commonwealth Department. Employee starts a part time job after April 1, 1986 with another Commonwealth employer, who uses the same Employer Identification number for tax reporting as the original Department. The employee works both jobs concurrently (primary and secondary).	No	Employee is exempt from Medicare tax on their primary job due to their hire date (before April 1, 1986). No break in service has occurred; therefore, the employee remains exempt from Medicare tax in their secondary job.	Exempt (E) (for both jobs)
7	Employee was hired before April 1, 1986 into a Commonwealth Department. Employee starts a part time job after April 1, 1986 with another Commonwealth employer, who uses the same Employer Id number as the original Department. The employee works both jobs concurrently. The employee is terminated from the original record but remains at the second job.	No	Employee is exempt from Medicare tax due to their hire date (before April 1, 1986). No break in service has occurred, because the employee was continuously employed by the Commonwealth, therefore the employee remains exempt from Medicare tax in their secondary job.	Exempt (E)

#	Scenario	Has Break In Service Occurred?	Explanation	Employee's Medicare Tax Status Setup in HR/CMS
8	Students who are working in a local school, college, university, local college club, fraternity or sorority and are enrolled and attending classes at that school.	N/A	Students who are enrolled and attending classes on at least a half-time basis (for at least 6 credit hours) and who work at the same institution, are exempt from Medicare tax regardless of date of hire.	Exempt (E)
9	Students who are working for a local school, college, university, local college club, fraternity, or sorority and are enrolled and attending classes at a different school, college, or university. Students who work (as an intern or otherwise) at a state Department.	N/A	In order for the student to be exempt from Medicare, that student must be working at the same school they attend. In this case, the student is not exempt from Medicare.	Medicare only (M) in the record(s) at the school s/he does not attend. Medicare only (M) in the record(s) at the state Department.
10	Students who are working during a school break in a local school, college, university, local college club, fraternity or sorority and are enrolled and attending classes at that school during the school year.	N/A	If the school break is less than five weeks, the student is exempt. If over five weeks (e.g., summer), students are subject to Medicare unless enrolled in summer school classes for at least 3 credits (non-credit courses will not qualify students for Medicare exemption).	Exempt (E) if break is less than five weeks or (if summer) student is enrolled in summer school classes for at least 3 credits. Medicare only (M) if break is over five weeks and student is not enrolled in summer classes for at least 3 credits.
11	Student nurses who are working in a hospital or a nurse's training school (which is chartered or approved by state law) and are enrolled and attending classes at that school.	N/A	Students who are enrolled and attending classes at the same school they are working in are exempt from Medicare tax regardless of date of hire.	Exempt (E)
	Higher Ed Faculty			
12	Adjunct faculty who are hired before April 1, 1986 and whose regular schedule does not include working during the summer or a specific semester, and is always active in HRCMS.	N/A	Employee who works for nine months during the year but who has an active record in HRCMS is still employed with the Commonwealth.	Exempt (E). There is no break in service.

#	Scenario	Has Break In Service Occurred?	Explanation	Employee's Medicare Tax Status Setup in HR/CMS
13	Employee was hired before April 1, 1986 with the Commonwealth. Some time after April 1, 1986, he/she is hired as contract employee to teach evening classes in one of the state universities, colleges, or community colleges who use the same employers identification number (EIN) as the Commonwealth for tax reporting purposes	N/A	Employee was hired before April 1, 1986 in his/her primary job which qualifies him/her as exempt from Medicare tax withholding	Exempt (E).
	Ministers			
14	Commissioned or licensed church ministers who are performing services in the exercise of his/her ministry.	N/A	Church ministers performing services as part of his/her ministry are exempt from Medicare tax regardless of date of hire.	Exempt (E)
	Temporary Emergency Workers			
15	Temporary workers hired for fire, snow, flood or similar emergencies.	N/A	Temporary workers hired for fire, snow, flood or similar emergencies are exempt from Medicare tax regardless of date of hire.	Exempt (E)
	Election Officials			
16	Election officials or workers receiving less than \$100 in a calendar year for such services.	N/A	Election officials or workers receiving less than \$100 in a calendar year for such services are exempt from Medicare tax regardless of date of hire.	Exempt (E))
	Unemployment Relief			
17	Employee who is hired by a Commonwealth employer to relieve unemployment.	N/A	Employees hired to relieve unemployment, regardless of date of hire, are exempt from Medicare tax.	Exempt (E)
	Patients or Inmates			
18	Patients or inmates working in hospitals, homes or other institutions.	N/A	Patients or inmates are exempt from Medicare tax regardless of date of hire.	Exempt (E)

POLICY TITLE: **STATE WITHHOLDING TAX**

DATE ISSUED: **6/28/02**

POLICY #: **3-4**

PAGE(S): **2**

POLICY

The Department of Revenue requires employers to withhold state income tax from wages paid to their employees based on the withholding exemptions claimed on the employee's Form W-4 or Form M-4.

State income tax is to be withheld from the wages of Commonwealth employees.

Withholding Allowance Certificates (Forms W-4 and M-4)

Employees are required to submit, upon hire, a completed Form W-4 "Employee's Withholding Allowance Certificate" to their Department. This certificate provides the basis for determining the proper amount of tax to withhold from an employee's wages. Employees can also submit a Form M-4 "Massachusetts Employee's Withholding Allowance Certificate" to specify the withholding exemptions applicable for their state withholding tax. Employees are not required to submit a Form M-4 if they have already submitted a Form W-4, unless they want a different withholding for state taxes.

If an employee does not submit a completed Form W-4 or M-4, state income tax will be withheld at the single status rate, with no withholding exemptions.

Every Commonwealth payroll Department is required to keep Form W-4's and M-4's on file for their current employees for at least three years after the date the tax was due.

A Form W-4 or M-4 must be put into effect by the employee's payroll Department for the first payroll period ending after the form is submitted. A Form W-4 or M-4 remains in effect until the employee submits a new one.

If employees make changes to their withholding allowances, they must submit a new Form W-4 or M-4 to their payroll Department. This Form W-4 or M-4 must be put into effect by the payroll Department no later than the beginning of the first payroll period ending on or after the 30th day after the form is received by the Payroll Department.

The Commonwealth is required to provide each employee with a yearly W-2 statement detailing the total amount of state withholding tax deducted from their wages.

Form W-4's can be downloaded from the IRS Forms and Instructions website:

http://www.irs.gov/forms_pubs/forms.html

Form M-4's can be downloaded from the DOR website:

<http://www.massdor.com/forms/formsIndex/taxformswage.htm#w1>

Commonwealth Employees Who Work Outside of Massachusetts

In particular this applies to DOR employees who are assigned to work in other states. If a Department has an employee who works outside of MA, it needs to communicate with the State Treasurer's office to ensure compliance with other state withholding requirements.

State Withholding Tax:

- Is administered by the Department of Revenue;
- Is a mandatory deduction for Commonwealth employees
- Requires a Form W-4 or M-4; and
- Is deducted in every biweekly pay period.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Department of Revenue establishes/identifies the policy on State Withholding Tax. The Office of the Comptroller implements said policy for Commonwealth employees.

AUTHORITY

Department of Revenue "Guide to Withholding Taxes on Wages"
IRS Publication 15, "Circular E Employer's Tax Guide"
IRS Publication 15A, "Circular E Employer's Supplemental Tax Guide"
29 CFR §516.5
Massachusetts General Laws, Chapter 7A, Sections 3, 7, 8
Massachusetts General Laws, Chapter 58, Section 28B
Massachusetts General Laws, Chapters 62B and 62C

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS**POLICY TITLE: RETIREMENT PROGRAMS****DATE ISSUED: 6/28/02****POLICY #: 3-5****PAGE(S): 3****POLICY****Retirement Plans**

The Commonwealth of Massachusetts requires that all employees, both state and contract, enroll in a qualified retirement plan. The State Board of Retirement administers the State Employees Retirement System. Membership in the system is mandatory for nearly all state employees who are regularly employed part-time (18.75 hours a week) or greater. In addition to the State Employees Retirement System, the Board of Higher Education has an Optional Retirement Plan for its members in accordance with section 401(a) of the Internal Revenue Code. Contract employees and those who do not meet the membership criteria of either of these programs are required to enroll in the Alternate Retirement Plan (OBRA). Commonwealth retirees do not contribute to any Commonwealth Retirement Plan.

Under Massachusetts Law, the first \$2,000 of combined Retirement and Medicare Withholdings is pre-tax for State Withholding purposes.

State Employee's Retirement System

An employee's date of hire and rate of pay determine the percentage rate of the biweekly retirement deduction.

State Retirement Board Employee Contribution Rates:

Hired before January 1, 1975	5%
Hired on or between January 1, 1975 – December 31, 1983	7%
Hired on or between January 1, 1984 - June 30, 1996	8%
Hired on or after July 1, 1996 - present	9%
State Police hired on or after July 1, 1996 – present	12%

For those employees hired on or after January 1, 1979 to the present, an additional 2% is deducted for retirement on the amount of the employee's salary that exceeds \$30,000. The judiciary has other additional percentage contribution rates, and salary thresholds, for some members.

According to IRS Publication #575, there is an annual maximum amount that an employee can defer to a qualified retirement plan. If an employee is contributing to other compensation plans (i.e. deferred compensation / tax sheltered annuity) in addition to a retirement plan, all their deferral amounts must be totaled when determining whether the maximum contribution limit has been reached. Any contributions in excess of the annual limit may be taxable to the employee during the calendar year in which the contribution was made.

Board of Higher Education Optional Retirement Plan

The Board of Higher Education Optional Retirement Plan is a defined contribution plan where contributions made by the employee and the Commonwealth are invested in custodial accounts or retirement annuity contracts offered by providers which have been approved by the Higher Education Coordinating Council.

Board of Higher Education Optional Retirement Plan Rates

Hired before July 1, 1996	8%
Hired on or after July 1, 1996 – present	9%

An additional 2% is deducted for retirement on the amount of the employee's salary that exceeds \$30,000.

The amount of annuity income received at retirement will depend on the amount contributed to the retirement annuity contracts, the investment experience of those funds, the employee's age at the time they begin receiving benefits, and the form of annuity payment that was chosen.

Alternate Retirement Plan (OBRA)

The IRS has issued regulations regarding retirement coverage for public employees (both state and contract) who are not members of a State Retirement Plan. The Omnibus Budget Reconciliation Act of 1990 (OBRA) regulation mandates that such public employees participate in an alternate retirement plan after July 1, 1991.

The definitions of types of employees required to contribute to the Alternate Retirement plan include employees who normally work 20 hours or less per week; employees who work on a full-time basis for less than 5 months in a year; and employees performing services for the employer pursuant to a contract of less than 2 years in duration.

The following employees are exempt from coverage, and therefore are not required to contribute to OBRA:

- Individuals hired through programs to relieve unemployment;
- Patients or inmates providing services in a hospital, home or institution;
- Individuals hired on a temporary basis in case of fire, storm, snow, earthquake, flood or other similar emergency;
- Election officials or election workers paid less than \$100 per calendar year;
- Employees of the Commonwealth who are members of the State Retirement System and also work part-time on contract;
- Employees of the Commonwealth who are over age 70, who are members of the State Retirement System and who have elected not to continue to make retirement contributions; and
- Persons who have retired from the Commonwealth and are receiving compensation from the Commonwealth for services performed after retirement;

In addition to the above-listed exceptions, prior exceptions for certain students employed in public schools, colleges and universities remain in effect. Departments should refer to the Office of the Comptroller's Comptroller Memo #159A and 159B, and the PERAC Memo #18/1991 as well as the OBRA Information Kit provided by the Deferred Compensation vendor for further guidance regarding compliance with the 1990 OBRA provisions.

OBRA is considered a deferred compensation plan for tax purposes. The IRS sets annual limits for employees who contribute to deferred compensation plans. Please refer to the current tax year IRS Publication 575 "Pension and Annuity Income" for more detailed guidance as to the annual limits.

Catch-Up Provisions for Alternate Retirement

For those employees close to normal retirement age, there are "catch-up" provisions for Alternate Retirement Plans. For the last three years before the employee reaches normal retirement age, the annual maximum deferral limit is increased to \$15,000 or the employee's limit for the current year plus the limit from previous years (minus the deferrals for those years), whichever amount is less.

Make-up Retirement for State Employee's Retirement System

State employees may buy back any prior public service to the Commonwealth that was refunded or public service to the Commonwealth that was provided but which did not have retirement contributions withheld.

Retirement Programs:

- The State Employees Retirement System is administered by the State Board of Retirement, the Board of Higher Education Optional Retirement Plan is administered by the Board of Higher Education, and the Alternate Retirement Plan is administered by the Deferred Compensation Unit at the Office of the State Treasurer;
- Are offered to all Commonwealth employees;
- Are available through an employee's payroll office;
- Are deducted in every biweekly pay period;
- Are deducted on a mandatory pre-tax basis; and
- Requires that employees complete State Retirement Board enrollment form.

Forms and additional information can be found on the State Retirement Boards Website at:

<http://www.state.ma.us/treasury/srb.htm>

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The State Board of Retirement establishes/identifies and implements the policy concerning the State Employees Retirement System. The Board of Higher Education establishes/identifies and implements the policy concerning the Higher Education Optional Retirement Plan. The Office of the Comptroller and the Deferred Compensation Unit of the Office of the State Treasurer establish/identify and implement the Alternate Retirement Plan (OBRA).

AUTHORITY

IRS Publication 575, "Pension and Annuity Income"
The Commonwealth of Massachusetts Higher Education Coordinating Council Optional Retirement Program brochure dated January 1996
OBRA Information Kit issued by The Copeland Companies, 1998
Comptroller Memo #159A, 159B as amended
PERAC Memo #18/1991
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 15, Section 18A
Massachusetts General Laws, Chapter 29, Section 64
Massachusetts General Laws, Chapter 29, Section 64A
Massachusetts General Laws, Chapter 29, Section 64D
Massachusetts General Laws, Chapter 32
Massachusetts General Laws, Chapter 62, Section 3

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: **WAGE GARNISHMENTS**

DATE ISSUED: **6/28/02**

POLICY #: **3-6**

PAGE(S): **5**

POLICY

Garnishments are mandatory deductions authorized by a court order, federal or state tax levy or other legal entity to be taken from an employee's after-tax wages according to the written instructions accompanying the garnishment order. All payments received by an employee for compensation are subject to garnishment. Only those garnishments that identify the Commonwealth as the employer and direct the Commonwealth to garnish the pay, and are authorized by a court order, federal law, or state law can be deducted through the payroll system. All changes must be authorized in the same manner as when originally adopted. No Garnishments will be taken in arrears.

The Commonwealth processes Garnishments in accordance with the following hierarchy:

- 1) **Chapter 13 Bankruptcy Orders (Personal Bankruptcy Orders) and IRS Tax Levies**
Chapter 13 Bankruptcy order takes top priority unless an IRS (Internal Revenue Service) IRS federal tax Levy is received first by the Department.

If a Chapter 13 Bankruptcy order is received by the Department *after* an IRS tax levy, the IRS requires employers to continue paying federal tax levy obligations unless the IRS issues an official release of levy. The Department must contact the Bankruptcy Trustee listed in the Bankruptcy order to notify the Trustee of the outstanding IRS Tax levies and any other wage garnishments. In most cases, all other wage garnishments, including child support obligations must be stayed, in accordance with the language of the order and written instructions from the Bankruptcy Trustee listed on the Bankruptcy order. In certain cases, employers will be instructed by the Bankruptcy Trustee to continue child support payments. Any creditors who currently receive wage garnishments should be notified if the Bankruptcy Trustee orders the wage garnishment stayed, and should be supplied with a copy of the written instructions and a copy of the Bankruptcy order. These instructions from the Bankruptcy Trustee will supercede any current wage garnishment orders other than IRS tax levies. All notifications are handled by the Department.

Any wage garnishment order received by the Department, after the establishment of a Chapter 13 Bankruptcy order, may not be entered into HR/CMS without prior review and approval by the Bankruptcy Trustee. The Department must immediately notify the both the Bankruptcy Trustee and the entity submitting any subsequent wage garnishment order in writing that a Chapter 13 Bankruptcy order is in place, and that the wage garnishment can not be entered without approval of the Bankruptcy Trustee. The subsequent entity may require the Department to submit a copy of the Bankruptcy order.

- 2) **IRS Tax Levies and Child Support Orders**
IRS Tax Levies and Child Support Orders are garnishments of equal status based on the date of the garnishment order. Whichever order is received first ("first in time, first in right") is the order that is processed first.

IRS Levy - Internal Revenue Service (IRS) levies on property for payment of taxes pursuant to Internal Revenue Code 26 USC Section 6331.

DOR collected orders for child and spousal support pursuant to MGL Chapter 119A, Section 12, include:

- Temporary orders of child support pending custody actions (MGL c.119 §28);
- Orders for care and maintenance of children under void marriage (MGL c. 207);
- Divorce orders for care and maintenance of children and alimony (MGL c. 208);
- Orders for child and spousal support for married persons living apart (separated) (MGL c. 209);
- Orders for temporary child and spousal support for victims of domestic violence (MGL c. 209A);
- Orders for child support for children born out of wedlock (MGL c. 209C);
- Criminal court orders for child or spousal support upon abandonment (MGL c. 273 § 18A).

All child support order payments ordered by a Massachusetts court will be sent to DOR for issuance to payees.

- 2) **DOR Levies** – Department of Revenue (DOR) levies on property for payment of taxes pursuant to MGL Chapter 62C, Section 53.
- 3) **Spousal Support Orders**
Court orders for spousal support (alimony) when there is no child support involved pursuant to MGL Chapter 208, Section 36A, Chapter 246 and Chapter 209D.
- 4) **Student Loan Repayments**
Administrative wage garnishments issued by the federal government collected by “the state treasurer or other state official authorized to expend money on behalf of the Commonwealth” for nonpayment of student loans pursuant to MGL Chapter 29, Section 31. Garnishment orders for unpaid student loans are generally issued to be no more than 10% of the employee’s disposal income although a greater percentage may be deducted with the written consent of the individual involved.
- 5) **DTA Overpayments**
DTA overpayments are the recovery of overpayments made by the Department of Transitional Assistance under MGL Chapter 18, Section 30.
- 6) **DMA Reimbursements**
DMA Reimbursements are reimbursements of medical assistance for health services to children provided by the Division of Medical Assistance pursuant to MGL Chapter 118E, Section 23.
- 7) **Court Ordered Employer Wage Garnishments**
Court ordered employer wage garnishments are garnishment orders that direct the employer (Departments of the Commonwealth) to garnish an employee’s pay. The garnishment order must come from a legal, court or administrative entity **AND** specifically identify the employer as the Commonwealth.

Court papers that do not name the Department as the employer and mandate a garnishment cannot be honored. Voluntary wage garnishments entered in court between an employee and a creditor are not court ordered wage garnishments but are considered voluntary and cannot be honored. Summons for “Trustee process” and out of state court ordered wage garnishment must be submitted immediately to the Attorney General’s office for review to determine if there is a legal obligation for the Commonwealth to honor the wage garnishment.

Disposable Earnings Subject to Garnishments

Disposable earnings are that part of an employee's earnings remaining after deductions required by law are taken. It is used to determine the amount of an employee's pay that is subject to garnishment. The maximum allowable garnishment differs according to the type of garnishment order. In all cases, however, the disposable earnings must exclude deductions required by law: federal taxes, state and local taxes, and retirement contributions. When an employee's wages are not enough to satisfy the garnishment(s), a "partial" amount will be taken. No garnishment will be taken in arrears.

Chapter 13 Bankruptcy Orders (Personal Bankruptcy Orders)

There is no limit in disposable earnings subject to a Chapter 13 Bankruptcy order. Departments should immediately confirm any limits in writing with the Bankruptcy Trustee.

IRS Tax Levies

For IRS tax levies, the amount remaining from net pay after any exempted amounts (deductions required by law is sent to the IRS to satisfy the levy. The individual can claim amounts to be exempt based on tax filing status.

Child Support Orders

For Child Support orders, the maximum garnishment amount is between 50% and 65% of disposable earnings:

- If the employee is supporting a spouse or dependent child other than those for whom a garnishment order is served, the maximum garnishment amount is 50%.
- If the employee is not supporting a spouse or dependent child, the maximum garnishment amount is 60%.

If the employee is deemed to be in arrears for an order prior to the previous twelve-week period, the amounts above increase to 55% and 65% respectively. For those employees with multiple garnishment orders for child support, it is the Department's responsibility to withhold the maximum amount possible from the employee's wages. DOR Child Support Enforcement will be responsible for allocating the withheld amounts to the custodial parents.

DOR Tax Levies

For DOR Tax levies, the maximum garnishment amount is 25% of the employee's disposable income. The definition of disposable income for this type of garnishment is gross pay minus taxes, retirement and any child support payments.

Spousal Support Orders

Spousal support garnishment orders not involving children follow the same guidelines for disposable earnings as Child Support orders listed above.

Student Loan Repayments

Garnishment orders for unpaid student loans are generally issued to be no more than 10% of the disposable income after taxes and retirement are deducted.

DTA Overpayments and DMA Reimbursements

For the repayment of DTA overpayments and DMA reimbursements, the maximum garnishment amount is either 25% of the employee's disposable earnings (gross pay minus taxes and retirement), or the amount by which the disposable earnings exceeds 30 times the minimum hourly wage, whichever amount is less.

Court Ordered Employer Wage Garnishments

Court ordered employer garnishment orders follow the same guidelines for disposable earnings as Child Support orders.

Employee with Multiple Jobs

When a garnishment order is issued to an employee who holds multiple jobs, the employee must indicate which wage payment the garnishment will be deducted from. The wage payment selected must be able to satisfy the biweekly garnishment deduction.

Wage Garnishments:

- Are administered by the Office of the Comptroller;
- Are mandated by court order, federal/state tax levy or other legal entity to be deducted by the employer;
- Are potentially deducted from all Commonwealth employees;
- Are submitted through an employee's payroll office and entered by the Office of the Comptroller in HR/CMS;
- Require a Garnishment Data Input Form and where applicable, a Garnishment Payee Request Form;
- Are deducted in every biweekly pay period; and
- Are deducted on a mandatory post-tax basis.
- All original copies of garnishment orders and related documentation must be retained at the Department for 7 years following the final garnishment payment.
- Must be discontinued by the Department upon an employee's retirement, termination or death.

The Human Resources Division (HRD) is required to report new hires to the Department of Revenue (DOR) every 14 days. The Information Technology Division (and UMS) will submit a new hire report to DOR for state and contract employees on a pay period basis on behalf of HRD.

Discharge of Garnishment

Garnishments may not be modified (increased or reduced) or cancelled at the employees request, but may only be modified by an amendment from the entity that submitted the original garnishment order (unless ordered to be stayed by a Bankruptcy Court Trustee)

The employer may not discharge a garnishment without an order authorizing the discharge. However, HR/CMS will halt garnishments with a specific total obligation once that obligation has been met. A release must be received by the Commonwealth in order for the garnishment to be closed.

Retirement/Termination or Death

The Comptroller's Office will, upon retirement/termination or death, discontinue garnishing from future payouts effective same date regardless of future temporary employment (IE 120 Day Appointments/ Intermittent Employees).

Garnishment Data Input Forms and Garnishment Payee Request Forms can be found on the Comptroller's website:

<http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm>

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller establishes/identifies and implements the policy on Wage Garnishments in accordance with applicable IRS/DOR tax laws, and other applicable garnishment laws.

Reports to DOR:

- ITD will send new hire HR/CMS report to DOR for state and contract employees.
- UMS will send new hire report to DOR for all UMS state and contract employees.

AUTHORITY

26 USC §6331- IRS Tax Levy
15 CFR §1673 - Restrictions on Garnishment
20 CFR §1095a – Student Loan Repayment
11 USC §1301 et al Chapter 13 Bankruptcy Law
Massachusetts General Laws, Chapter 7A, Sections 3, 7, 8 – State Accounting System
Massachusetts General Laws, Chapter 18, Section 30 – DTA Overpayments
Massachusetts General Laws, Chapter 29, Section 31- Salaries
Massachusetts General Laws, Chapter 62C, Section 53 – DOR Tax Levy
Massachusetts General Laws, Chapter 118E, Section 23 – DMA Reimbursements
Massachusetts General Laws, Chapter 119A, Section 12 – Child Support Order Wage Garnishments
Massachusetts General Laws, Chapter 119, Section 28 – Payment of Support
Massachusetts General Laws, Chapter 207 – Marriage/Domestic Relations
Massachusetts General Laws, Chapter 208 - Divorce
Massachusetts General Laws, Chapter 209 – Married Persons
Massachusetts General Laws, Chapter 209A – Abuse Prevention
Massachusetts General Laws, Chapter 209C – Children Born Out of Wedlock
Massachusetts General Laws, Chapter 209D – Interstate Family Support Act
Massachusetts General Laws, Chapter 246 – Trustee Process
Massachusetts General Laws, Chapter 273, Section 18A – Support Obligations Under Prior Law

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: **BASIC INSURANCE DEDUCTIONS**

DATE ISSUED: **6/28/02**

POLICY #:

PAGE(S): **3-7**
3

POLICY

The Commonwealth provides through the Group Insurance Commission (GIC), programs of group life, health, long-term disability insurance and dental/vision coverage for state employees. These insurance programs are voluntary and deductions are authorized by the employee. Employees who work at least half-time (18.75 hours or 20 hours weekly) are eligible for these programs. Employees are required to furnish GIC with all necessary information to enroll themselves or dependents under these programs.

Authorization for insurance deductions may be terminated by the employee as long as the employee gives at least sixty days notice in writing to his/her GIC Coordinator. An employee may terminate his/her health insurance coverage, but cancellation of Basic Life Insurance will automatically terminate health and any Optional Life Insurance as well.

The Following Basic Insurance Enrollment/Change Forms can be found at the Group Insurance Commission's website at:

<http://www.state.ma.us/gic/annualenrollforms.htm>

Health Insurance

Health insurance benefits:

- Are administered by the Group Insurance Commission;
- Are offered to Commonwealth state employees who work at least half-time (18.75 hours or 20 hours weekly);
- Are available through an employee's human resources office;
- Are deducted in the first two biweekly pay periods of the month; and
- Are available on a voluntary pre-tax basis.
- Employee must complete form issued by GIC.

Basic Life Insurance

Basic Life insurance benefits:

- Are administered by the Group Insurance Commission;
- Are offered to Commonwealth state employees who work at least half-time (18.75 hours or 20 hours weekly);
- Are available through an employee's human resources office;
- Are deducted in the second biweekly pay period of the month; and
- Are available on a voluntary pre-tax basis.
- Employee must complete form issued by GIC.

Basic Life Insurance is a term life insurance policy that pays the beneficiary in the event of the employee's death. Basic Life Insurance also provides for payment to the policyholder in the event of accidental dismemberment, paralysis or a terminal illness if life expectancy is 12 months or less.

Optional Life Insurance

Optional Life insurance benefits:

- Are administered by the Group Insurance Commission;
- Are offered to Commonwealth state employees who work at least half-time (18.75 hours or 20 hours weekly) and who are enrolled for Basic Life Insurance or Basic Life and health insurance;
- Are available through an employee's human resources office;
- Are deducted in the second biweekly pay period of the month; and
- Are available on a voluntary post-tax basis.
- Employee must complete form issued by GIC.

Optional Life Insurance is a term life insurance policy that pays the beneficiary in the event of the employee's death. Optional Life Insurance also provides for payment to the policyholder in the event of accidental dismemberment, paralysis or a terminal illness if life expectancy is 12 months or less.

Dental/Vision Benefits

Dental and Vision benefits for executive and legislative branch Departments:

- Are administered by the Group Insurance Commission;
- Are offered to non union Commonwealth state employees who work at least half-time (18.75 hours or 20 hours weekly);
- Are available through an employee's human resources office;
- Are deducted in the second biweekly pay period of the month; and
- Are available on a voluntary post-tax basis.
- Employee must complete form issued by GIC.

Dental and Vision benefits for the Judicial branch Departments:

- Are administered by the Human Resources Department of Administration Office of the Trial Court (AOTC);
- Are offered to employees of the Judicial Branch;
- Are available through an employee's human resources office;
- Are deducted in the second biweekly pay period of the month; and
- Are available on a voluntary post-tax basis.
- Employee must complete form issued by Judiciary.

Long-Term Disability

Long-term disability benefits:

- Are administered by the Group Insurance Commission;
- Are offered to Commonwealth state employees who work at least half-time (18.75 hours or 20 hours weekly);
- Are available through an employee's human resources office;
- Are deducted in the first biweekly pay period of the month; and
- Are available on a voluntary post-tax basis.
- Employee must complete form issued by GIC.

The Long-Term Disability plan provides tax-free income of 50% of an employee's base salary, when the covered employee is unable to work because of disability. Premium rates are based on an employee's salary and age.

APPLICABILITY	This policy applies to all Commonwealth Branches and Departments.
RESPONSIBLE PARTY	<p>The Group Insurance Commission and the human resources office of the Administration Office of the Trial Court jointly establish/identify and implement the policies on Basic Insurance programs.</p> <p>The Office of the Comptroller implements the deduction policy for Basic Insurance Deductions.</p>
AUTHORITY	<p>Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8</p> <p>Massachusetts General Laws, Chapter 32A, Sections 4,5,6,7,8 and 10C, et.seq.</p>

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: UNION ENDORSED SPECIAL INSURANCE DEDUCTIONS

DATE ISSUED: 6/28/02

POLICY #: 3-8

PAGE(S): 2

POLICY

Special Insurance deductions are voluntary post-tax payroll deductions that an employee can authorize to be taken from their net pay and have it paid directly to an authorized vendor. Authorized vendors must be union endorsed and are listed on the Vendor Payment Table, which is managed by the Office of the Comptroller. The most common types of special insurance include short and long-term disability, supplemental life insurance, homeowners insurance and group car insurance.

Special Insurance Deductions:

- Are administered by Departments;
- Are authorized by the Office of the Comptroller;
- Are offered to Commonwealth state employees in related bargaining units;
- Are authorized by statute and endorsed by the employee union;
- Require a Payroll Deduction Authorization (PDA) form;
- Are deducted in every biweekly pay period; and
- Are available on a voluntary post-tax basis.

To add a new special insurance vendor to the Vendor Payment Table, the union that is endorsing the insurance vendor must submit its letter of endorsement, identifying which programs the union is endorsing, to the Office of the Comptroller for approval. If the vendor is approved, the Office of the Comptroller will add the vendor to the Vendor File.

Employees can then fill out a "Payroll Deduction Authorization (PDA) For Insurance Or Other Employee Deductions" form and submit it to their payroll unit to authorize the deduction. The Department's payroll unit will enter the deduction in the payroll system for that employee, and file the PDA form in the employee's file.

Authorization for special insurance deductions may be terminated by the employee as long as the employee gives at least sixty days notice in writing, using the "Discontinuation Of Authorization For Payroll Deduction For Insurance Or Other Employee Deductions" form to their payroll unit.

Payroll Deduction Authorization Forms and Discontinuation of Payroll Deduction Authorization Forms can be found on the Comptroller's website:

<http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm>

APPLICABILITY	This policy applies to all Commonwealth Branches and Departments.
RESPONSIBLE PARTY	The Office of the Comptroller establishes/identifies and implements the policy on Special Insurance Deductions.
AUTHORITY	Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8 Massachusetts General Laws, Chapter 180, Section 17J

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: **UNION DUES**

DATE ISSUED: **6/28/02**

POLICY #: **3-9**

PAGE(S): **1**

POLICY

Employees in bargaining unit positions are represented by unions that negotiate collective bargaining agreements with the Commonwealth on behalf of their members. Employees who are covered by a collective bargaining agreement must pay either Union Dues or Agency Service Fees to the union. Employees may authorize a post-tax deduction from the employee's pay on a biweekly basis.

If the employee elects not to join the union, he/she must pay an Agency Service Fee to the union.

The employee may terminate authorization for union dues deductions as long as the employee gives at least sixty (60) days notice in writing to his/her human resources office and filing a copy with the treasurer of the union.

Union Dues:

- Are administered by the appropriate human resource authorities for unions within its jurisdiction;
- Are required for Commonwealth employees appointed to a bargaining unit position and certain unionized contract faculty members;
- Are not applicable to employees assigned to positions designated as "confidential";
- Are identified through the appropriate bargaining unit;
- May be deducted in every biweekly pay period; and
- Are available on a post-tax basis.
- Employee must complete form issued by union.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

Appropriate Human Resource authorities establish/identify and implement the policy on Union Dues.

The Office of the Comptroller implements the deduction policy for Union Dues Deductions.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 150E, Section 12
Massachusetts General Laws, Chapter 180, Section 17A
Massachusetts General Laws, Chapter 180, Section 17G

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: **AGENCY SERVICE FEES**

DATE ISSUED: 6/28/02
POLICY #: 3-10
PAGE(S): 1

POLICY State employees, occupying a bargaining unit position, who elect not to join the union, are required, as a condition of employment, to pay Agency Service Fees. Agency Service Fees are paid to the employee's bargaining unit in lieu of regular union dues. Employees may authorize this post-tax deduction be taken from the employee's pay on a biweekly basis.

The employee may terminate authorization for agency service fee deductions as long as the employee gives at least sixty (60) days notice in writing to his/her human resources office and files a copy with the treasurer of the union.

Agency Service Fees:

- Are administered by the appropriate human resource authority for unions within its jurisdiction;
- Are required for Commonwealth employees and certain unionized contract faculty employee members appointed to a bargaining unit position who do not pay union dues;
- Are not applicable to employees assigned to positions designated as "confidential";
- Are identified through the appropriate bargaining unit;
- May be deducted in every biweekly pay period; and
- Are available on a post-tax basis.
- Employee must complete form issued by union.

APPLICABILITY This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY Appropriate human resource authorities establish/identify and implement the policy on Agency Service Fees.

The Office of the Comptroller implements the deduction policy for Agency Service Fees Deductions.

AUTHORITY Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 150E, Section 12
Massachusetts General Laws, Chapter 180, Section 17G

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE	VOLUNTARY UNION DEDUCTIONS
DATE ISSUED	6/28/02
POLICY #	3-11
PAGES(S)	1
POLICY	Employees in some bargaining units have a voluntary deduction available that allows them to contribute to various union sponsored activities (e.g. political action committees). Employee signs union issued form.
APPLICABILITY	This policy applies to Commonwealth Branches and Departments.
RESPONSIBLE PARTY	Appropriate human resource authorities establish/identify and implement the policy on agency state employees. The Office of the Comptroller implements the deduction policy for Voluntary Union Deductions and approved deductions.
AUTHORITY	Massachusetts General Laws, Chapter 180, Section 17J

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: **DEPENDENT CARE ASSISTANCE PROGRAM (DCAP)**

DATE ISSUED: **6/28/02**
POLICY #: **3-12**
PAGE(S): **2**

POLICY

Dependent Care Assistance Program

The Dependent Care Assistance Program (DCAP) is a voluntary program which allows employees to set aside a portion of their pre-tax income specifically for this purpose. Under the Federal Tax Law, employees may set aside pre-tax dollars for child or dependent adult care.

Employees are eligible for this program if they:

- Are employed by the Commonwealth of Massachusetts;
- Have child(ren) younger than 13;
- Have child(ren) in a licensed day care center or family day care home or another form of child care that meets the Federal Tax Code requirements;
- Or
- Care for an adult or child who is mentally or physically incapacitated whom they claim as an exemption for tax reporting and who lives in their house at least 8 hours a day.

Upon receipt of documentation of dependent care expenses from the employee, a reimbursement check is issued from the employee's DCAP provider. Unused contributions to the program will be forfeited.

DCAP Fee

A post-tax administration fee is charged to employees participating in the DCAP program. This fee is deducted from the employee's wages divided evenly over each pay period during the year.

DCAP Program

- Administered by the Group Insurance Commission (GIC) and a third party administrator;
- Offered to all Commonwealth employees;
- Available through an employee's human resources office;
- Requires a DCAP Election Form;
- Deducted in every biweekly pay period; and
- Available on a voluntary pre-tax basis.

DCAP Forms can be found on the Group Insurance Commission's website:

<http://www.state.ma.us/gic/dcap.htm>

APPLICABILITY	This policy applies to all Commonwealth Branches and Departments.
RESPONSIBLE PARTY	<p>The Group Insurance Commission establishes/identifies and implements the policy on the Dependent Care Assistance Program.</p> <p>The Office of the Comptroller implements the deduction policy for DCAP Deductions.</p>
AUTHORITY	<p>26 USC §129 Dependent Care Assistance Programs Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8 Massachusetts General Laws, Chapter 32A</p>

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS**POLICY TITLE: TAX SHELTERED ANNUITY PLANS****DATE ISSUED: 6/28/02****POLICY #: 3-13****PAGE(S): 2****POLICY****Tax Sheltered Annuity (TSA) Plans**

Tax Sheltered Annuity Plans or TSAs, as they are commonly referred to, are tax-deferred retirement plans available to employees of community colleges, state colleges, universities, and other qualified individuals employed in an educational capacity. Employees can contribute a portion of their before tax salary into a TSA plan up to certain limits. Generally, if the employee has a TSA, the limit is \$11,000 per year (2002). If the employee has a TSA plus retirement and deferred compensation, the total deductions cannot exceed \$40,000 per year (2002). If the employee requests to increase beyond these limits or needs more information, review the box below or contact the State Treasurer's office.

The maximum contribution amount to a 403(b) account is **MAC plus allowable catch-up contribution**.

Maximum Amount Contributable (MAC)

IRS Bulletin 571 (Rev. January 2002) defines the Maximum Amount Contributable (MAC). For tax years after 2001, MAC is the lesser of the limit on annual additions, or the limit on elective deferrals.

Limit on annual additions:	\$40,000 or 100% of includible compensation (See IRS Publication 571 Chapter 13: Worksheet C).
Limit on elective deferrals	\$11,000. The limit on elective deferrals will increase by \$1,000 each year through 2006.

Catch-up Contributions for Persons Age 50 or Older

Beginning in 2002, if age 50 or older, the maximum additional catch-up contributions is \$1,000 to a 403(b) account. The limit on catch-up contributions will increase each year by \$1,000 through 2006.

The amounts contributed to the TSA plan on the employee's behalf are not included in the employee's income for the purposes of federal and state income tax withholding, but they are subject to Medicare taxes.

TSA Deductions:

- Are administered by the Office of the State Treasurer and UMASS;
- Are offered to all employees of community colleges, state colleges, universities, and other qualified individuals employed in an educational capacity;
- Are available through a designated provider;
- Are deducted in every biweekly pay period;
- Are available on a voluntary pre-tax basis; and
- TSA deductions should be stopped upon retirement/termination/death.

TSA contributions cannot be deducted from:

- Accrued vacation/sick
- Bonus
- Merit Pay

The employee is required to complete a TSA form provided by the vendor.

APPLICABILITY

This policy applies to Institutions of Higher Education and other educational Departments.

**RESPONSIBLE
PARTY**

The Office of the State Treasurer and (for UMASS) the University of Massachusetts Treasurer establishes/identifies and implements the policy on Tax Shelter Annuity Plans.

The Office of the Comptroller implements the deduction policy for TSA Deductions.

AUTHORITY

26 USC §403 (b)Taxation of Employee Annuities
IRS Publication 571, "Tax-sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations" (Rev. January 2002)
IRS Publication 553, "Highlights of 2001 Tax Changes" (Rev. January 2002)
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS**POLICY TITLE: DEFERRED COMPENSATION****DATE ISSUED: 6/28/02****POLICY #: 3-14****PAGE(S): 2****POLICY****Deferred Compensation Plans**

The Commonwealth has made available to its employees the option of deferring a portion of their on a pre-tax basis salary into a qualified custodial account, up to certain limits, for the exclusive benefit of the employees and their beneficiaries. Generally, if the employee has a deferred compensation contribution, the limit is \$11,000 per year (2002). If the employee has a deferred compensation contribution plus retirement and/or a TSA, the total deductions cannot exceed \$40,000 (2002). If the employee requests to increase beyond these limits or needs more detailed information, review the box below or contact the State Treasurer's office.

Contribution Limits

As of January 1, 2002, IRS Bulletin 525 (Cat. No. 15047d) defines the limits for elective contributions to Section 457 plans. There are potentially three (3) limits that apply in determining the maximum amount contributable to a 457(b) plan.

Annual Contribution Limit

Annual Maximum is \$11,000. The limit will increase by \$1,000 each year through 2006. Subsequent annual cost-of-living adjustments for 2007 (and later) will be made in \$500 increments.

457 (b) Catch-up Provision

Note: Catch-up can only be \$1,000 each year through 2006. Subsequent annual cost-of-living adjustments for 2007 (and later) will be made in \$500 increments.

during the three years (consecutive) prior to, but not including, the year the participant attains Normal Retirement Age (65).

Older Workers' Catch-up Provision

Note: If at least age 50, and currently participate in a governmental 457(b) plan, employee is eligible to contribute an additional amount over the regular limit. However, contributions are not allowed to BOTH the 457(b) catch-up provision and the older workers' catch-up provision during the same year.

Older Worker's Catch-up Maximum is \$1,000. The limit on elective deferrals will increase by \$1,000 each year through 2006. Subsequent annual cost-of-living adjustments for 2007 (and later) will be made in \$500 increments.

The amounts contributed to the deferred compensation plan on the employee's behalf are not included in the employee's income for the purposes of federal and state income tax withholding, but they are subject to Medicare taxes.

Deferred Compensation Deductions:

- Are administered by the Office of the State Treasurer;
- Are offered to all Commonwealth employees;
- Are available through a designated provider;
- Are deducted in every biweekly pay period;
- Are available on a voluntary pre-tax basis; and
- Must be discontinued upon retirement/termination/death.

Deferred Compensation contributions cannot be deducted from:

- Accrued vacation/sick
- Bonus
- Merit Pay

The employee must complete a deferred compensation application form provided by the vendor.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the State Treasurer establishes/identifies and implements the policy on Deferred Compensation.

The Office of the Comptroller implements the deduction policy for Deferred Compensation Deductions.

AUTHORITY

26 USC § 457 Deferred Compensation Plans of State and Local Governments and Tax Exempt Organizations
IRS Publication 571, "Tax-sheltered Annuity Programs for Employees of Public Schools and Certain Tax-Exempt Organizations"
IRS Publication 575 Pension and Annuity Income
IRS Publication 553 Highlights of 2001 Tax Changes
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 64B

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: SAVINGS BONDS

DATE ISSUED: 6/28/02

POLICY #: 3-15

PAGE(S): 2

POLICY The Savings Bond Plan is a voluntary plan that allows employees to authorize a post-tax deduction from their net pay to purchase U.S. Savings Bonds. Employees can purchase multiple bonds from a single deduction in the payroll system.

Savings Bond Deductions:

- Are administered by the Office of the State Treasurer (UMS Treasurer for UMS);
- Are offered to all Commonwealth employees;
- Are available through an employee's payroll office;
- Are deducted in every biweekly pay period;
- Are available on a voluntary post-tax basis; and
- Require EE Savings Bond Form.

Types of Savings Bonds Offered

Currently, Series EE appreciation type bonds with face values of \$100, \$200, \$500 and \$1000 are available for purchase through the payroll system.

Beneficiary Designations

Employees can designate up to two beneficiaries or co-owners for each bond. The bonds that are purchased will be distributed to the owners in the sequence specified by the employee.

Missing Bonds

If an employee is missing a bond, they must contact his/her payroll Department to resolve the issue. There are specific forms to claim a missing bond, available from the Federal Reserve. It is the employee's responsibility to fill out and submit those forms to the Federal Reserve to process a missing bond claim.

Refunds

The State Treasurer's office (TRE) is responsible for issuing Savings Bond refunds to employees. Refunds are given when employees discontinue their participation in the Savings Bond program and an accrual balance remains that needs to be refunded. Savings Bond refunds can only be given to employees who are active in the payroll system and who do not currently have a savings bond deduction. TRE issues a refund check through HR/CMS and mails the check directly to the employee's home address. Requests for savings bond refunds must be submitted in writing to the State Treasurer's Office.

Savings Bond Forms can be found on the US Treasury website:

<ftp://208.131.225.4/mar2152e.pdf>

APPLICABILITY	This policy applies to all Commonwealth Branches and Departments.
RESPONSIBLE PARTY	<p>The Office of the State Treasurer and UMS establish/identify and implement the policy on Savings Bonds.</p> <p>The Office of the Comptroller implements the deduction policy for Savings Bond Deductions.</p>
AUTHORITY	<p>Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8</p> <p>Massachusetts General Laws, Chapter 154, Section 8</p>

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: **COMMONWEALTH OF MASSACHUSETTS EMPLOYEES CHARITABLE CAMPAIGN (COMECC)**

DATE ISSUED: **6/28/02**

POLICY #: **3-16**

PAGE(S): **1**

POLICY The Commonwealth of Massachusetts Employees Charitable Campaign (COMECC) is one authorized annual payroll deduction workplace solicitation. It affords Commonwealth employees the opportunity to support hundreds of private, nonprofit health, human services and environmental organizations which provide services to millions of people in Massachusetts and around the world.

Employees may make a pledge of any amount and have it deducted from their pay as a voluntary post-tax deduction. Employees have the choice of designating all or part of their gift to a particular agency or federation.

Authorization for COMECC deductions may be terminated by the employee in the next available payroll cycle upon sending written notification to his/her payroll unit.

COMECC Deductions:

- Are administered by the Executive Office of Administration and Finance;
- Are available through an employee's payroll office;
- Are offered to all Commonwealth employees;
- Require a COMECC Deduction Form;
- Are deducted in every biweekly pay period; and
- Are available on a voluntary post-tax basis.

APPLICABILITY This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY The Executive Office for Administration and Finance establishes/identifies and implements the policy for COMECC deductions.

The Office of the Comptroller implements the deduction policy for COMECC Deductions.

AUTHORITY Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 180, Section 17B

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: MBTA PASSES

DATE ISSUED: 6/28/02

POLICY #: 3-17

PAGE(S): 2

POLICY The Commonwealth supports the Massachusetts Bay Transportation Authority (MBTA) program, which allows employees to purchase transit passes through a payroll deduction as a transportation fringe benefit. Transit passes are pre-tax deductions based on the federally approved dollar amount according to IRS Code 26, section 132(f). Any amount over the designated pre-tax amount will be deducted on a post tax basis. The federal pre-tax benefit applies to both income and Medicare taxes. For multiple pass purchases, the calculation will apply to the transit pass that provides the greatest pre-tax benefit.

Passes that are currently available include:

- Local Bus
- Subway
- Combo
- ComboPLUS
- Zone 1 – Zone 9
- Water Shuttle

MBTA Coordinators

Departments who utilize the MBTA pass deduction are required to assign an MBTA Coordinator for each Department's location. This Coordinator will be responsible for receiving and dispersing MBTA passes to their employees.

Transit Pass Refunds

MBTA transit pass refunds are not processed through the payroll system. In the event an employee needs to obtain a refund for a transit pass that was deducted through the payroll system, the employee can do so directly with the MBTA. The MBTA will issue refunds and exchanges beginning with the fourth business day before the end of the month until the fourth business day after the end of the month for which the pass is valid. The MBTA will not refund without proof that the employee had a deduction for the MBTA pass. The employee should bring their pay stub showing the deduction and a picture ID to Government Center or Downtown Crossing MBTA ticket offices during business hours.

MBTA Deductions:

- Are administered jointly by the Office of the Comptroller and each Department;
- Are offered to all Commonwealth employees;
- Are available through an employee's payroll office;
- Are deducted in the first biweekly pay period of the month for the next month's pass;
- Depending on the value of the pass purchased, all or a portion of the deduction is treated as a federal pre-tax benefit; and
- Require a Deduction Form for MBTA pass to be filled out by the employee.

MBTA Deduction Forms can be found on the Comptroller's website:

[Http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm](http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm)

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller coordinates the pass program with the MBTA and implements the deduction policy for MBTA Passes.

AUTHORITY

26 IRC 132(f) Non-Cash Transportation Benefits
Comptroller Policy Memo #299 as amended
IRS Publication 535 Business Expenses
DOR TIR 99-23
DOR TIR 00-04
DOR TIR 00-12
IRS Notice 94-3
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 180, Section 17H

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: U.Fund

DATE ISSUED: 6/28/02

POLICY #: 3-18

PAGES (S): 2

POLICY: U.Fund: Qualified Tuition Program (QTP)

The U.Fund is a voluntary plan that allows employees to authorize a post-tax deduction from their net pay to save for college, graduate school, and other forms of higher education.

The U.Fund College Investing Plan was established by the Massachusetts Educational Financing Authority (MEFA), an independent authority and public instrumentality of the Commonwealth of Massachusetts, and is administered by the State Treasurer. U.Fund is a Qualified Tuition Program (529 Plan). 529 Plans, named after the federal Internal Revenue Code Section 529 that gave these accounts special tax status, are specifically created for college savings.

U.Fund Deductions

- Are administered by the Office of the State Treasurer;
- Are offered to all Commonwealth employees;
- Are available through an employee's payroll office;
- Are deducted in the first two pay periods of each calendar month, for a total of 24 deductions per year;
- Are available on a voluntary post-tax basis.
- Employee signs form issued by approved vendor.

Forms and additional information can be found at the State Treasurer's website at:

<http://www.state.ma.us/treasury/UFUND.htm>

Deductions Not Sent

If a payroll deduction for the U.Fund cannot be processed due to payroll funding delays, processing delays, or for any reason, no credit will be awarded until the next scheduled payroll cycle date. In the event that a scheduled deduction cannot be processed, contributors will receive a deduction refund via check and instructions to contribute directly to the U.Fund administrator.

Deductions Not Received

Check refunds will be provided in cases where deductions are withheld but not applied because an account has not been established by the employee with the vendor. Employees will need to reestablish authorization for any future deductions. In the event that U.Fund deductions cannot be applied, for reasons related to market availability, such deposits will be applied as soon thereafter.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the State Treasurer establishes/identifies and implements the policy on the U.Fund.

The Office of the Comptroller implements the deduction policy for U.FUND Deductions.

AUTHORITY

26 USC § 529 “Qualified Tuition Programs”
IRS Publication 970, “Tax Benefits for Higher Education” (Cat.No. 25221V)
IRS Publication 553, “Highlights of 2001 Tax Changes” (Rev. January 2002)
Massachusetts General Laws, Chapter 0, Section 17L – State Tuition Program

CHAPTER 3 MANDATORY AND VOLUNTARY DEDUCTIONS

POLICY TITLE: COMMONWEALTH FEES

DATE ISSUED: 6/28/02
POLICY #: 3-19
PAGE(S): 1

POLICY

Commonwealth fees are voluntary recurring post-tax deductions for employees for legislatively authorized services or items or employer provided benefits that are made available by a Department to employees. Departments are required to have legislative authorization to charge a fee for the employer provided benefit or prior approval by the Comptroller to offer the benefit through a payroll deduction. Payroll deductions ensure that the Commonwealth recovers the value of the items or services provided to employees.

Commonwealth Fee Deductions:

- Are centrally established by the Office of the Comptroller based upon a Department's submission of legislative authorization to charge a fee for a service or other item made available to employees;
- Must be legislatively authorized and may not represent an amount that is less than the fair market value of the service or item made available to an employee;
- Require a Payroll Deduction Authorization (PDA) form;
- Are deducted in every biweekly pay period;
- Are available on a voluntary post-tax basis.

Examples of Commonwealth fee deductions include on-site day care fees, near site parking fees and housing charges under 801 CMR 4.03 for employees living on Commonwealth space.

Payroll Deduction Authorization Forms can be found on the Comptrollers' website:

<http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm>

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments, unless otherwise provided by law.

RESPONSIBLE PARTY

The Executive Office for Administration and Finance establishes/identifies and implements the policy for Commonwealth Fee Deductions.

AUTHORITY

801 CMR 4.03
Massachusetts General Law, Chapter 7, Section 3B
Massachusetts General Law, Chapter 180, Section 17K

CHAPTER 4	TYPES OF PAYMENTS
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POLICY TITLE: **EMPLOYEE REIMBURSEMENTS**

DATE ISSUED: **6/28/02**
POLICY #: **4-1**
PAGE(S): **1**

POLICY

Employee Reimbursements are reimbursements to state employees for certain approved expenses paid out of pocket by the employee. Examples of approved expenses include out of state travel and tuition reimbursement. Please refer to the Expenditure Classification Handbook for further definitions of approved employee reimbursements.

Direct Deposit Functionality

Reimbursements to employees are processed through the MMARS accounting system via a Payment Voucher (PV) transaction that is entered by the employee's Department. These reimbursement payments will accommodate direct deposit functionality. Direct deposit reimbursement payments will be sent to the employee's **balance** direct deposit account. If an employee currently receives their regular salary payment by direct deposit, their reimbursement payment will also be by direct deposit. If an employee currently receives their regular salary payment by check, their reimbursement payment will be by check mailed to their home address.

Form W-2

Employee reimbursement payments that are tax reportable will be added to each employee's year to date totals on their Form W-2, eliminating the need for two separate tax documents at the end of the calendar year. The Expenditure Classification Handbook indicates which reimbursements are tax reportable.

APPLICABILITY This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY The Office of the Comptroller establishes/identifies and implements the policy on Employee Reimbursements.

AUTHORITY Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8 – State Accounting
Massachusetts General Laws, Chapter 7, Section 27A – Travel Related Services
Massachusetts General Laws, Chapter 7, Section 28 – Rules and Regulations of The Human Resources Division
Massachusetts General Laws, Chapter 30, Section 25 – Expenses of State Officers
Massachusetts General Laws, Chapter 30, Section 25B – Outside Travel Expenses
Massachusetts General Laws, Chapter 30, Section 45 – Classification of State Offices and Positions
Massachusetts General Laws, Chapter 30, Section 46H – Vacation, Sick, Personal Leave Benefits

CHAPTER 4 TYPES OF PAYMENTS**POLICY TITLE:** **RETROACTIVE PAYMENTS****DATE ISSUED:** **6/28/02****POLICY#:** **4-2****PAGES(S):** **2****POLICY:** There are generally two types of retroactive payments:

- Those that are the result of a collective bargaining agreement and supported by a reserve account; and
- Those that are the result of other retroactive compensation for an individual or groups of individuals.

Collective Bargaining Agreement Payments

For those retroactive payments that are the result of a collective bargaining agreement and supported by a reserve account, the Secretary of Administration and Finance usually transfers reserve funds to Department accounts based on recommendations from the Fiscal Affairs Division (FAD). In the absence of reserve funds, Departments must use other legally available funds authorized to make payments for the fiscal year in which services were rendered. Reserve transfers usually cover the exact amount of any required payments for services rendered in fiscal years prior to the one in which an agreement is implemented.

For payments related to employee services rendered in the fiscal year in which an agreement is implemented (i.e., the "current" fiscal year), Departments usually are expected to use their own funds to the extent possible, and reserve transfers are limited to covering payments for which Department funds are determined to be insufficient. Specific written guidance regarding reserve transfers for Executive Department agreements usually is issued by the Human Resources Division at the time an agreement is implemented. Specific guidance regarding reserve transfers for other agreements is available from FAD at the time an agreement is implemented.

Other Retroactive Compensation

There are also retroactive payments made to individuals or groups of individuals based on legal decisions that are usually the result of litigation, arbitration, mediation or internal Department determination. All these payments are subject to appropriation and should be paid during the year the decision was made. For example, if the decision is made in FY2003, the payment should be made from FY2003 funds. This compensation may be paid from one of three funding sources:

1. Current Department appropriated funds for the purpose of the retroactive payments or for payroll expenditures
2. Settlement and judgment account
3. Supplemental appropriated funds for the purpose of the retroactive payments or for payroll expenditures

Departments can seek assistance from the Comptrollers office as to which funding source would be appropriate for their type of retroactive compensation.

Examples of Other Retroactive Compensation

Listed below are some examples of retroactive payments that are based on a legal decision.

- Judgments issued to resolve court cases, which have retroactive dates to a previous fiscal year (eg. employee was returned to employment after winning a civil suit on discrimination).
- Arbitrator's decisions awarding back pay for a previous fiscal year.
- Decisions issued under a collective bargaining grievance procedure that would award back pay or reinstatement going back to a previous fiscal year
- Decisions issued by the Civil Service Commission, the Human Resources Division, or an agency granting a classification appeal under Chapter 30, Section 49, MGL; these usually have retroactive dates going back to the date the appeal was originally filed.
- Decisions on Worker's Compensation cases that are retroactive to a previous fiscal year.

Former employees who need to receive a retroactive payment will be rehired and then terminated using Action Reason Codes in HR/CMS.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

Any entity that has jurisdiction over the collective bargaining and/or classification process establishes/identifies and implements the policy on Retroactive Payments.

AUTHORITY

815 CMR 5.00
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Collective Bargaining Awards

CHAPTER 4 TYPES OF PAYMENTS**POLICY TITLE:** **ACCOUNTS PAYABLE****DATE ISSUED:** **6/28/02****POLICY #:** **4-3****PAGE(S):** **1**

POLICY There are instances where Departments need to process prior fiscal year payroll in the current fiscal year accounts payable period. To accommodate that need, Accounts Payable payroll is available after the close of a fiscal year. There are two types of Accounts Payable payroll: state employee accounts payable and contract employee accounts payable.

State Employee Accounts Payable Payroll

This is payroll charged against a Department's MMARS account in the previous fiscal year for services rendered prior to the end of that fiscal year (June 30th) for state employees. The Accounts Payable payroll occurs in the current fiscal year during the accounts payable period. A Payroll Hold (PH) encumbrance transaction must be entered on MMARS prior to June 30th of each fiscal year to encumber funds for Accounts Payable payroll. Departments are responsible to insure that the money encumbered in their Payroll Holds will cover the amount they have posted for Accounts Payable payrolls.

http://www.state.ma.us/osc/Payinfo/payroll/regular_Employ_AcctPay_Proc.html

Contract Employee Accounts Payable Payroll

This payroll is charged against a Department's MMARS account in the previous fiscal year for services rendered prior to the end of that fiscal year (June 30th) for contract employees. The accounts payable payroll for contract employees will run during the accounts payable period in the regular biweekly payroll cycle. Departments are responsible for insuring that funds are made available in the prior fiscal year's contract for an employee's accounts payable payment to process accurately.

http://www.state.ma.us/osc/Payinfo/payroll/Contract_Employee_AcctPayable02.pdf

The Accounts Payable period runs through August 31st unless extended by the Fiscal Affairs Division (FAD) or by statute.

APPLICABILITY This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY The Office at the Comptroller establishes/identifies and implements the policy on Accounts Payable.

AUTHORITY Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 13

CHAPTER 4	TYPES OF PAYMENTS
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POLICY TITLE: **TERMINATION BENEFITS (SICK and VACATION LEAVE BUYOUTS)**

DATE ISSUED: 6/28/02
POLICY #: 4-4
PAGE(S): 1

POLICY Termination benefits are defined as unused employee leave balances that represent a true liability to the Commonwealth such as earned but unused vacation and sick time to a retired or terminated employees.

Accrued (earned) benefits must be paid out according to the Collective Bargaining Agreement in effect at the time of termination or by the Human Resources Division "Rules Governing Paid Leave and Other Benefits for Managers and Confidential Employees" issued by the Personnel Administrator or by other Human Resource departments as appropriate.

Payments must be paid within one pay period from when the employee terminates and must be charged to the same Fiscal Year the termination occurs.

No contributions to Deferred Compensation or Tax Shelter Annuity (TSA) Plans can be deducted from accrued vacation or sick leave buyouts.

Termination Benefits Paid from Federal Funds

Direct charge of termination benefits to federal funds is not an allowable cost, in accordance with OMB Circular A-87. Departments should pay expenditures for termination benefits from federal grant accounts first and then immediately transfer those expenditures to a central account managed by the Comptroller's Office via PCRS. For details of the policy and directions, please see Comptroller Policy Memo # 316. <http://www.osc.state.ma.us/Accountg/marmemos/316.html>

APPLICABILITY This policy applies to all Commonwealth branches and Departments.

RESPONSIBLE PARTY The Human Resources Division or by other Human Resource departments as appropriate establishes/identifies and implements the policy on termination benefits. The Office of the Comptroller implements the payment policy for terminal leave benefits.

AUTHORITY Massachusetts General Laws, Chapter 7, Section 28
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Collective Bargaining Agreements
OMB Circular A-87

CHAPTER 4	TYPES OF PAYMENTS
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POLICY TITLE: PRIOR YEAR PAYROLL PAYMENTS

DATE ISSUED: 6/28/02
POLICY #: 4-5
PAGE(S): 1

POLICY Prior year payments are authorized expenses that were incurred in a prior fiscal year but the Department did not recognize that these expenses were incurred or the expenses were recognized after the end of the accounts payable period.

Prior year payroll is a Department's payroll that is to be paid out of the Comptroller's prior year account in the current or prior fiscal year. Department's current fiscal year account is charged back by the Office of the Comptroller in order to support the expenditure.

Examples of Prior Year Payments

Listed below are examples of prior year payroll payments that are usually errors (failure to act) on the part of the Department, discovered at a later date through an audit or as raised by an employee or supervisor:

- Neglected to award a step increase based on employee's anniversary date;
- Calculated a promotion incorrectly;
- Used the wrong salary chart to calculate an annual pay increase;
- Didn't pay overtime when it was earned;
- Didn't pay vacation cash out to a terminated employee.

APPLICABILITY This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY The Office at the Comptroller establishes/identifies and implements the policy on Prior Year Payments

AUTHORITY Comptroller Memo #279 "Procedures for Payment of Prior Year Deficiencies" as amended
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Sections 26 and 27

CHAPTER 4 TYPES OF PAYMENTS**POLICY TITLE:** **INDUSTRIAL ACCIDENTS****DATE ISSUED:** **6/28/02****POLICY #:** **4-6****PAGE(S):** **3****POLICY**

Industrial Accidents are injuries that arise out of, and in the course of, employment which rendered the employee physically or mentally unable to perform his/her work. The statute in effect at the time of the injury governs the amount of payment to an injured employee. Please refer to the Workers' Compensation Law, M.G.L. Chapter 152, for more information.

The sections of the Industrial Accident policy that relate to payroll are described below:

Definitions of Industrial Accident Payments

Full Salary or Wages (salary) is the salary paid to an employee based on the position held at the time of the accident, exclusive of overtime and concurrent employment. For employees subject to a collective bargaining agreement, that agreement would control the definition of "full salary or wages". An employee's full salary or wages may increase over time (e.g. merit pay increases, COLA and step increases).

Average Weekly Wages are the earnings of the injured employee during the period of twelve calendar months immediately preceding the date of injury, divided by fifty-two, inclusive of overtime and other work related compensation.

Payment of salary utilizing sick leave credit is payment to an employee during the determination period which charges the entire salary to the employee's sick leave credits.

Payment of salary utilizing sick leave to augment industrial accident compensation is payment of salary, part of which is industrial accident compensation and the other part of which is charged to the employee's sick leave credit, to an employee who has been injured. Any sick time an employee accrues subsequent to his/her industrial injury cannot be used to supplement the workers' compensation benefits. The value of sick leave may increase over time as an employee's salary changes. The sum of these two payments may not exceed the amount of the employee's full salary or wages. This is applicable to employees who are either totally or partially disabled.

Overpayments are payments of salary utilizing sick leave credit which, when added to the weekly workers' compensation benefits, result in a payment greater than the employee's weekly salary during the determination period. This should not occur as the first and second workers' compensation payments are sent directly to the Department for reconciliation of sick time benefits.

Determination Period

The typical determination period is approximately two weeks in duration. During this period, an employee may use available sick or vacation leave credits to be paid the full amount of his/her weekly salary from the day of injury until his/her return to work or until the case has been settled by the Department of Industrial Accident.

Any absence resulting from such injury that is in excess of available sick leave or vacation leave shall be deemed absence without pay.

The above policy is contingent upon specific collective bargaining agreements.

Sick Leave Buy Back Policy

An employee is entitled to workers' compensation benefits upon approval of the Human Resources Division, Workers' Compensation Section. An overpayment results when the sum of the payment of salary utilizing sick leave credit and the workers' compensation payment exceed the employee's salary during the determination period. The amount of the overpayment is the difference between the two.

The following policy relates to employees who utilize sick leave during the determination period. The accurate calculation and reporting of the employee's wages during the determination period may require adjustment in three areas:

- 1) Refund of any payments to which the employee is not entitled. If, during the determination period, the total compensation to which the employee is entitled equals or exceeds the sum of the weekly workers' compensation benefits and the actual payments are made to the employee, the employee is entitled to the entire disability check and the policies in 2) and 3) do not apply.

If the sum of the weekly workers' compensation benefits and actual payments received during the determination period exceed the total compensation to which the employee is entitled, the difference (minus an adjustment for retirement contribution), must be refunded to the Commonwealth. Weekly workers' compensation benefits are not subject to retirement contributions. In instances when the amount that the employee has been paid by his or her employer, along with the amount paid by Workers' Compensation, exceeds the amount statutorily allowed, reimbursement for this excess must be made by the Department from the initial check issued by HRD Workers' Compensation Unit.

- 2) Conversion of payments made during the determination period. The amount of the overpayment to the employee during the determination period must be converted from taxable earnings to non-taxable earnings. Retirement deductions withheld from payment of salary using sick leave credit must be reimbursed to the employee. The employee's W-2 earnings record must be adjusted to reflect the decrease in taxable income based on the amount of overpayment, which was subsequently refunded to the Commonwealth. It must also be adjusted to reflect the decrease in retirement contributions, which were subsequently refunded to the employee.
- 3) Restore employee's sick leave balance. Department must adjust the employee's sick leave balance by the number of days equivalent to the gross funds which the employee is refunding to the Commonwealth.

The above policy is contingent upon specific collective bargaining agreements

An employee who, while in the performance of duty, receives bodily injuries resulting from the acts of violence of patients or prisoners in his/her custody, may receive the difference between the amount of his/her regular salary and the amount of weekly workers

Post Determination Period Policy

During the post determination period, an employee's compensation may exceed 100% of his/her regular salary according to Chapter 152, Section 69 of the Massachusetts General Laws. This compensation may include the workers' compensation benefit and any appropriately used vacation leave or overtime except as otherwise provided in a collective bargaining agreement.

the acts of violence of patients or prisoners in his/her custody, may receive the difference between the amount of his/her regular salary and the amount of weekly workers' compensation benefit without such absence being charged against available sick leave credits. All employees are not eligible for violence pay unless it is in their bargaining agreements.

Effective January 24, 1991, any period during which an employee is receiving weekly benefits for total incapacity under Chapter 152 shall not be counted in computing such employee's sick leave for severance pay purposes. An employee may not use sick leave accrued during the time of incapacity, either total or partial. (Please note that the Massachusetts Appeals Court has ruled that an employee does not continue to accrue vacation or sick leave during periods of total disability.)

The above policy is contingent upon specific collective bargaining agreements.

State Board of Retirement Impact

Persons receiving workers' compensation benefits following an injury retain their status as members in service in the retirement system. They receive creditable service for this time and cannot withdraw their accumulated total deductions from the retirement system.

Workers' compensation benefits and violence pay are not considered to be regular compensation for determining the amount of a member's retirement allowance, but the receipt of sick leave payments that make up the difference between the employee's regular salary and the workers' compensation benefits that he or she is receiving is considered to be regular compensation.

The State Board of Retirement is responsible for granting creditable service and for determining what an employee's regular compensation is for retirement purposes. Inquiries should be directed to the Board.

Sick Leave and Vacation Credit Accruals Policy

Earned leave will accrue in accordance with the appropriate collective bargaining contract provisions or other appropriate human resources policies and procedures.

If a holiday falls within the period for which an employee who is on leave of absence due to industrial accident is being charged sick leave, no charge should be made against available sick leave credits for the day on which the holiday falls.

If a holiday falls within the period for which an employee who is on leave of absence due to industrial accident is being charged vacation leave, no charge should be made against available vacation leave credits for the day on which the holiday falls.

The above policy is contingent upon specific collective bargaining agreements.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Human Resources Division establishes/identifies and implements the policy on Industrial Accidents.

AUTHORITY

Human Resources Division "Rules Governing Paid Leave and Other Benefits" handbook as authorized by Massachusetts General Laws, Chapter 7, Section 28. Massachusetts General Laws, Chapter 152, Worker's Compensation Law Massachusetts General Laws, Chapter 30, Section 58

CHAPTER 4	TYPES OF PAYMENTS
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POLICY TITLE: **PAYMENTS FOR DECEASED EMPLOYEES**

DATE ISSUED: **6/28/02**

POLICY #: **4-7**

PAGE (S): **3**

POLICY

Once a Payroll Director learns of an employee's death, he/she must stop the employee's direct deposit or check and hold all payments until they contact the State Retirement Board for beneficiary information.

All payments owed to an employee after his/her death are to be paid out to the employee's designated beneficiary on file with the State Board of Retirement. If the employee has identified more than one beneficiary on file with the State Board of Retirement, the Department should divide and distribute the payments between all beneficiaries consistent with the employee's election. If there are no designated beneficiaries on file, payment should be made to the employee's estate.

If an employee dies before cashing or depositing a paycheck from which income and Medicare tax have been deducted, the Department should process a receipt voucher to return the net amount of the money in to the payroll account. Once the money has been returned in the payroll account, the Department should process a MMARS Payment Voucher (PV) to the beneficiary in object code A21 (PAYMENT FOR DECEASED EMPLOYEE) for the same net amount of the check previously issued to the employee. The compensation was properly subject to Medicare and income withholding since the employee was living when the wages were paid. HR/CMS will issue a W-2 to the deceased individual, and MMARS will issue a 1099-MISC form to the beneficiaries.

Other Payments Made in Same Calendar Year of Employee's Death

If other payments are made in the same year of the employee's death, the Department should process a receipt voucher to return the payment less Medicare taxes and retirement contribution to the payroll account. Once the money has been returned to the payroll account, the Department should process a MMARS PV to the beneficiary in Object Code A21 for the same amount. The only part of the payment to be reported on the employee's W-2 is any applicable Medicare wages, Medicare tax and retirement contributions. This will ensure that the employee receives the proper Medicare and retirement credit for that tax year. In addition to the employee's W-2, MMARS will issue a 1099-MISC form to the designated beneficiaries or estate for all compensation paid after the date of death.

Payment Made in Calendar Year After Employee's Death

If the payment is made after the year of the employee's death, the Department should process a MMARS PV to the beneficiary in the Object Code A21 for the entire amount. No Medicare taxes or retirement contributions are to be taken, and the Medicare wages are to be reported on a 1099-MISC form. The 1099-MISC form will be issued to the designated beneficiaries or estate for all compensation paid after the date of death.

NOTE: Payments to beneficiaries or estates will be made through MMARS Payment Voucher (PV). Departments will be required to process a PV in object code A21 (PAYMENTS FOR DECEASED EMPLOYEES). MMARS has been enhanced to support a PV transaction to beneficiaries/estates and issue a 1099-MISC to meet the IRS and DOR tax reporting requirements.

Deductions To Be Taken

The IRS requires that both Medicare tax and retirement contributions be deducted from all payments owed to the deceased employee when the payment is made in the same calendar year of the employee's death. Inversely, if the payment is made in the year after the employee's death, no Medicare tax or retirement contributions are to be deducted. In addition to Medicare tax and retirement contributions, the Office of the Comptroller has made determinations on how all other payroll deductions are to be handled for deceased employee payments on the table listed below.

Please refer to ["Deduction Guidelines for Deceased Employee Payments"](#) on page 82.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies the policy on Payments to Deceased Employees.

AUTHORITY

IRS Instructions for Form 1099-MISC, Tax Year 2001
IRS Rev. Rule. 71-525, CB 1971-2, 356
Massachusetts General Laws, Chapter 7A, Sections 3, 7, 8
Massachusetts General Laws, Chapter 29, Sections 31A and 31D

DEDUCTION GUIDELINES FOR DECEASED EMPLOYEE PAYMENTS

Deduction	Payment Made in Calendar Year of Employee's Death	Payment Made <u>After</u> Calendar Year of Employee's Death
Federal Income Tax	Do Not Deduct	Do Not Deduct
Medicare Tax	Deduct	Do Not Deduct
State Income Tax	Do Not Deduct	Do Not Deduct
State Retirement	Deduct	Do Not Deduct
Higher Ed Optional Retirement	Deduct	Do Not Deduct
Alternate Retirement	Deduct	Do Not Deduct
Wage Garnishments	Deduct (unless notified by legal entity to stop deduction prior to payment going out)	Do Not Deduct
Salary Advances	Deduct	Deduct
Basic Insurance	Do Not Deduct	Do Not Deduct
Long Term Disability	Do Not Deduct	Do Not Deduct
Dental/Vision Insurance	Do Not Deduct	Do Not Deduct
Optional Life Insurance	Do Not Deduct	Do Not Deduct
Special Insurance	Do Not Deduct	Do Not Deduct
Union Dues	Do Not Deduct	Do Not Deduct
Agency Service Fees	Do Not Deduct	Do Not Deduct
DCAP	Do Not Deduct	Do Not Deduct
TSA	Do Not Deduct	Do Not Deduct
Deferred Comp	Do Not Deduct	Do Not Deduct
Savings Bonds	Do Not Deduct	Do Not Deduct
COMECC	Do Not Deduct	Do Not Deduct
MBTA Passes	Do Not Deduct	Do Not Deduct
Commonwealth Fees	Do Not Deduct	Do Not Deduct

CHAPTER 5	PAYROLL APPROVAL
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POLICY TITLE: PAYROLL EXPENDITURE APPROVAL

DATE ISSUED: 6/28/02
POLICY #: 5-1
PAGE(S): 2

POLICY

The Commonwealth is required to maintain time and attendance records for each employee. Reporting time that employees work during a workweek is essential for ensuring an accurate payroll. Employees are required to keep track of the number of hours they work during each workday. This information can be tracked in a number of ways, the most common being through timesheets. Please refer to the Time and Attendance Policy issued by the appropriate human resource authority for more guidance on this issue.

Attendance Records

Attendance records record variations in the actual number of hours an employee has worked in a given pay period. Any changes to an employee's regular work schedule are identified as attendance exceptions. Attendance exceptions are used to document overtime, sick days, vacation days, personal days, or any other exception to regular hourly attendance. Reporting attendance exceptions is necessary in order for the payroll system to properly compensate employees and keep track of their accumulated balances of sick time, vacation time, personal days and compensatory time.

Payroll Exception Records

Payroll exception records record variations in the rate at which an employee's hours are compensated. An employee may work the same number of hours, but be entitled to a different pay amount. These are recorded as payroll exceptions. Some examples of payroll exceptions include shift differential, area differential and roll call pay. These exceptions must be recorded in the payroll system so that the employee receives the pay amount adjustment that is appropriate for that pay period.

Approving Payroll Expenditures

Once an employee's time is recorded, his/her manager must confirm that services have been delivered in accordance with this record. Time and attendance can then be recorded in the payroll system. A signatory authority or authorities certify the entire payroll based on confirmation of managers. This approval should include the following statement or can be done on the "Payroll Expenditure Approval" form:

"This payroll has been processed in accordance with the Commonwealth's Payroll Expenditure Policy, State Finance Law, and this Department's Internal Control Plan. The amount listed has been certified to the Comptroller through the payroll system for payment. This certifies that time and attendance for each employee is on file in this Department and approved by the appropriate manager to support amounts paid. This approval and supporting details will remain on file in this Department for three years for review by the Office of the Comptroller or other auditing entity."

Both levels of approval should be done in accordance with the Commonwealth's Payroll Expenditure Policy, State Finance Law and the Department's internal control plan.

These approvals are key steps in the series of reliances for payment consistent with State Finance Law. In accordance with G.L. c.7A §3 and G.L. c.29 §31, the Comptroller examines all accounts and demands for payment for all Commonwealth accounts and funds unless specifically exempted. The Comptroller requires an affidavit from the Department Head or designee that articles have been furnished, services have been rendered (including payroll) or obligations have been incurred, as certified. This establishes a powerful series of reliances:

- The Governor's Council approves the Warrant based upon the certification of payments by the Comptroller.
- The Comptroller certifies the payroll based upon the approval of the 157 Department Heads. Funds are appropriated to Department Heads.
- The Department Head relies on the delegation of signatory authority given to state officials. Department signatory authorities are so designated by the Department Head and are on file with the Office of the Comptroller.
- The state official who certifies the payroll for each Department relies on the supervisor's certification that the services have been received in accordance with the employee's time sheet.

Departments are required to keep copies of employee's recorded time in house for a period of three years. All payroll records are kept centrally on ViewDirect for a period of 7 years.

Payroll Expenditure Approval Forms can be found on the Comptroller's website:

<http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm>

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies and implements the policy on Payroll Expenditure Approval.

AUTHORITY

29 USC §211(c) Fair Labor Standards
Massachusetts General Law, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Law, Chapter 29, Section 20
Massachusetts General Law, Chapter 30, Section 38, 42
Massachusetts General Law, Chapter 149, Section 27B and 52C
Massachusetts General Law, Chapter 66

CHAPTER 6	PAYING THE EMPLOYEE
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POLICY TITLE: DIRECT DEPOSIT

DATE ISSUED: 6/28/02

POLICY #: 6-1

PAGE(S): 2

POLICY

The Office of the State Treasurer supports two forms of payment for payroll: electronic funds transfer (EFT) and check, with EFT being the preferred method of payment.

EFT is:

- an electronic transmission sent from the “originating” bank under contract with the Office of the State Treasurer to the “receiving” bank of the employee being paid. EFT can be sent to checking, savings and passbook accounts.
- the preferred method of payment because of the convenience and cost effectiveness of this form of payment for both the Commonwealth and the employee.

HR/CMS allows an employee to designate up to 10 direct deposit accounts for their net pay distribution. The State Treasurer’s office will provide the authorization form for all accounts to which payments will be sent.

To sign up for EFT, the employee must provide 6 pieces of information:

- 1) Name of bank
- 2) Bank transit number (the number representing bank to which the payment is to be sent);
- 3) Bank account number (the number of the account assigned to the employee by the bank);
- 4) Type of account (is either “checking” or “savings”);
- 5) Amount/Percent of deduction; and
- 6) Employee authorization signature.

Direct Deposit Forms can be found on the Office of the Comptroller’s website:

<http://www.state.ma.us/osc/Payinfo/payroll/frmdrdep.pdf>

Pre-Note Process

It is the policy of the State Treasurer to pre-notify or “pre-note” (test) EFT data provided by the employee. This process ensures the successful EFT transmission of payments sent to an employee’s bank. If the pre-noting is successful, future payments sent by the Treasurer to the employee’s bank will be by EFT.

The waiting period for an employee’s direct deposit to complete the pre-note process is eight (8) business days. Therefore, if the direct deposit data is in the payroll system by the end of the first week of the pay period, the employee will receive direct deposit for that pay period’s wages.

Failed EFTs

In the event that an employee's EFT fails (usually due to closed accounts), the State Treasurer's office will generate a paper check for that direct deposit amount.

The exception to this rule occurs when an employee distributes his/her net pay to multiple direct deposit accounts. When an employee sets up multiple direct deposit accounts, he/she is required to assign one of those accounts as the balance account. Balance accounts take any money left over once all the other direct deposit accounts have been satisfied.

If the balance account fails the electronic funds transfer, the State Treasurer's office will generate a paper check for that amount. If a non-balance (amount or percent) account fails the electronic funds transfer, the amount slated for that account will drop into the balance account designated by the employee.

Distribution of Advices and Checks

Pay advices and checks are sorted separately but use the same criteria for the sort order: Department ID, Location Code (found on the job panel) and Mail Drop ID (found on the payroll data panel). Location codes are required and are maintained jointly by the Human Resources Division and the Office of the Comptroller. It indicates the geographic and physical location of where an employee works. Mail Drop ID is a free form field used at the discretion of each Department as a lower level identifier of an employee's work location.

Unfunded Direct Deposits

When an employee who is on direct deposit, has his/her pay held due to funding issues, the direct deposit will also be held until the funding issues have been resolved. Once funded, the direct deposit payment will be sent to the employee's bank. Usually, the settlement date will be a date after the regular payday. Pay advices (and checks) for unfunded payments subsequently released are mailed to the employee's Home Address (unless a different mailing address is indicated on the employee's record in HR/CMS).

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments on HR/CMS.

**RESPONSIBLE
PARTY**

The Office of the State Treasurer establishes/identifies and implements the policy on Direct Deposits. The Office of the State Treasurer is responsible for printing pay advices and checks, and ITD is responsible for the distribution of advices and checks from the Massachusetts Technology Center (MTC) and the Central Mail Facility at One Ashburton Place.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 31
Massachusetts General Laws, Chapter 10.

CHAPTER 6	PAYING THE EMPLOYEE
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POLICY TITLE: **DISBURSEMENT OF PAYMENTS**

DATE ISSUED: 6/28/02
POLICY #: 6-2
PAGE(S): 2

POLICY

Disbursement of Payments

Disbursement of payments is the responsibility of the Office of the State Treasurer. The disbursement of payments occurs once the Office of the Comptroller has certified that "Department signatory authority" approved payroll expenditures are sufficiently funded from authorized appropriations and accounts in the state accounting system.

Chapter 7A, Section 3 of the Massachusetts General Laws outlines, in general terms, the duties and responsibilities of the Comptroller. By statute the Comptroller must:

- "Examine all accounts and demands against the Commonwealth"; and
- Prepare a "certificate" specifying the amount due and allowed on each account, the name of the person to whom such amount is payable and the account to which it is chargeable.

The "certificate" is then sent to the Governor, who, with the "advice and consent" of the Governor's Council, issues a warrant to the State Treasurer for the amount to be disbursed.

Payroll payments are distributed on a biweekly basis to employees. They are sent to bank accounts via Electronic Funds Transfer (EFT) or to the employees via a paper check.

Per Massachusetts General Law, employees are to be paid within six days of the termination of the pay period during which the wages were earned, unless otherwise agreed to in writing by the employee pursuant to M.G.L. c. 149, s. 148. Every employee receives a payment remittance which is available in paper, by ViewDirect or electronically through PayInfo.

PayInfo

PayInfo is an application designed to provide Commonwealth employees with an electronic Payroll remittance over the web, 7 by 24, one day prior to payday! Four pay periods of data are maintained on this employee web site, secured by secure socket layers (SSL), encryption and employee controlled passwords. This initiative is not only intended to provide employees with payroll remittance information at their convenience, but will ultimately eliminate the need to print remittance advices, halt the departmental commute to Boston to pick up remittance advices and further sort and distribute them to employees with a significant savings to the Commonwealth.

It is important to note that the Commonwealth has worked diligently with employees and their Unions to ensure that privacy of the payroll information, as well as good security measures, are in place. The project supports federal and state initiatives to eliminate paperwork whenever possible.

If Departments want to implement PayInfo, please contact CTR's helpline for more information at 617-727-5995.

DynaCash

Every Department should have a DynaCash account for payroll emergencies. If for reasons other than departmental funding deficits an employee does not receive their biweekly payment, the Department should issue that employee a check out of their DynaCash account for the approximate net pay amount. This amount can be deducted from the next biweekly payroll for that employee. The DynaCash account may only be used in this instance. This option is not available in unfunded situations.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the State Treasurer establishes/identifies and implements the policy on Disbursement of Payments.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 149, Section 148
Massachusetts General Laws, Chapter 10

CHAPTER 7	PAYROLL ACCOUNTING
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POLICY TITLE: PAYROLL EXPENDITURE ADJUSTMENT TRANSACTIONS

DATE ISSUED: 6/28/02

POLICY #: 7-1

PAGES(S): 2

POLICY

The Payroll Cost Reporting System (PCRS) automates payroll adjustment transactions and reconciles PCRS and MMARS payroll expenditure balances.

Departments are responsible for processing all payroll adjustments through PCRS in order to assure that PCRS and MMARS are in sync. PCRS transactions do not update any data in HR/CMS, but in some cases are required to keep PCRS and MMARS in sync with HR/CMS adjustments.

Expenditure Correction (XA) Transaction

The expenditure correction (XA) transaction is a user-entered document that modifies expenditure accounting information recorded on a payroll charge that has been processed through the payroll system. It does not change the dollar amount of the original expenditure. An expenditure correction corrects accounting data by decreasing expenditures in the incorrect account/organization/object code, etc., and increasing expenditures in the correct account/organization/object code, etc.

Historical Funds/Rules Edit

PCRS edits will determine whether a Department can process an XA. The two most important edits will be the historical funds edit and the PCRS rules edit. The historical funds edit will make sure that the account listed on the XA could have supported the charges at the time the charges were incurred. The rules edit verifies that there is an approved rule in place in the PCRS Rules Subsystem to allow an account change on the XA. If the document fails the rules edit, it will go to a REJECT status. If the XA fails the historical funds edit or crosses fiscal years, it will automatically go to a PEND status to be reviewed by the Comptroller's office.

Payroll Reject (XD) Transaction

The payroll reject (XD) transaction is system generated at the time of payroll production. It identifies incorrect or missing data on a processed payroll charge and appends the charge in the Department's payroll reject (so-called "9's") account while it awaits correction. It is important to remember that a payroll reject is a transaction and not merely a report of the error. This data must be corrected in order for the payroll charge to process against the correct expenditure account(s). When corrections are in place, the XD can be processed to decrease expenditures at the 9's account and increase expenditures at the original distribution account.

Insufficient Funds (XF) Transaction

The insufficient funds (XF) transaction is system generated at the time of payroll production. It identifies those Departments, accounts, subsidiaries and individual employees whose payroll is not sufficiently funded for a given pay period. Employee payments are held as a result and are not released until sufficient funds are available.

The related payroll charge is appended at the Department's payroll reject (so-called "9's") account. When sufficient funds are in place, the XF can be processed to decrease expenditures at the 9's account and increase expenditures at the original distribution account.

Departments are responsible for working with the Comptroller's Payroll Unit to resolve their insufficient funds problem. Only the Comptroller's Office can process an insufficient funds transaction, Departments have view access of the XF on the PCRS Holding File.

Expenditure Refund (XE/XC) Transactions

The expenditure refund (XE) transaction is a user-entered document that allows a Department to put money back into the accounting system that was paid in error. The XE is used for refunds processed in the current fiscal year and for refunds to continuing accounts received after July 1st, the start of a new fiscal year.

When payroll is concerned, the XE operates in tandem with a Payroll Refund Receipt Voucher Form. This receipt voucher form is the document that records the HR/CMS adjustment to be made, Departments use this form to enter information into HR/CMS. Departments enter the payroll receipt voucher on HR/CMS to correct an employee's year to date totals and then enter an XE transaction in PCRS to correct labor history in PCRS and accounting information in MMARS.

For refunds received in the current fiscal year for prior year expenditures in a non-continuing or budgetary account, an XC transaction is used to process the refund. Departments will use the Payroll Refund Receipt Voucher Form for the XC in the same way they do an XE. An XC (Cash Transfer) functions in the same way as an XE within PCRS, however, the XC records a cash deposit (not an expenditure reduction).

User Defined Correction (XU) Transaction

The user defined correction (XU) transaction is used to correct PCRS data only. It allows a Department to modify/change Secretariat and Department defined PCRS data on a prior period payroll charge. This change does not update MMARS since no MMARS data is being affected. An XU decreases expenditures in PCRS labor history only at the incorrect Department controlled data fields and increases expenditures at the correct Department controlled data fields.

Note: More details on the PCRS "X" transactions can be found on the Comptroller's web site at: www.state.ma.us/osc/Payinfo/Payroll.htm Click on the PCRS Manual.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies and implements the policy on Payroll Adjustment Transactions.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29, Section 29

CHAPTER 7	PAYROLL ACCOUNTING
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POLICY TITLE: OFFICIAL RECORD OF PAYROLL EXPENDITURES

DATE ISSUED: 6/28/02

POLICY #: 7-2

PAGE(S): 2

POLICY Payroll records are records maintained as part of the HR/CMS payroll system, including back up documents required or maintained in order to process payroll. Payroll records are not automatically deemed public records and should not be routinely released as such without careful consideration of the privacy restrictions imposed by state and federal law. Certain data maintained as part of payroll records is considered personal information and personally identifiable information and, therefore, confidential and may not be accessed, disclosed or released unless authorized by the employee. Departments should exercise significant internal controls to ensure that HR/CMS security and access to payroll records are provided only to those individuals who require such access to process payroll. Payroll staff should consult with legal counsel prior to the release or public access or disclosure of any information contained in a payroll record to ensure that such information is not restricted from such release.

The Commonwealth payroll system is the official record keeper of payroll expenditures for Departments. Regular compensation for all Commonwealth employees is to be paid correctly every biweekly pay period (2 weeks). Any payroll adjustments to an employee's record are to be made within 30 days (2 pay periods) of the original date the error occurred. This will ensure that all employees are paid and records accurate within 30 days of service.

Payroll adjustments are necessary when an employee's payroll or leave earnings are in error, or a new decision has been that affects an employee's original payroll or time and attendance entry.

Types of Payroll Adjustments

Payroll adjustments fall into one of two categories, Errors or New Decisions. Errors refer to incorrect or incomplete information on an employee's previously processed payroll record. New decisions refer to situations where the employee has a pending decision about their employment status and based on the result of the decision, adjustments have to be posted to reflect the correct outcome.

<u>Examples of Errors</u>	<u>Examples of New Decisions</u>
Payroll earnings	Industrial Accident
Overtime earnings	Grievances
Leave earnings	Extended Illness Leave Bank
Employee Off Payroll	Suspensions w/No Pay
	Collective Bargaining

Adjustments to correct payroll errors are to be processed as prior period adjustments within 30 days (2 pay periods) of the date the original error occurred. Adjustments to correct the results of new decisions are to be processed as adjustments in the current pay period, using the Comments field on the adjustment to identify the original time period the adjustment pertains to. The date for new decisions is the date of notification (i.e. the date of the implementation memo for collective bargaining decisions).

If the adjustment pertains to a prior fiscal year and affects expenditures, Departments must request a prior year payroll from the Department of Assistance Bureau at the Office of the Comptroller. See Chapter 4 Types of Payments: Prior Year Payments for more details. If the adjustment pertains to a prior fiscal year and does not affect expenditures (i.e. leave balance adjustment), Departments are to make the adjustment in the current pay period and use the Comments field on the adjustment to identify the actual day(s) the adjustment is for.

Departments will be monitored and those posting prior period adjustments greater than 30 days old will be notified that they need to be in compliance with the 30 day policy and will be required to resolve the error that is not in compliance immediately.

Payroll Adjustments:

- Are administered by the Department;
- Are required to be processed within 30 days of the date error originally occurred; and
- Are monitored by the Office of the Comptroller.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller and the Human Resources Division jointly establish/identify the policy on Payroll Adjustments.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7, 8

CHAPTER 7 PAYROLL ACCOUNTING**POLICY TITLE: REFUNDS/PRIOR PERIOD ADJUSTMENTS****DATE ISSUED: 6/28/02****POLICY #: 7-3****PAGE(S): 4****POLICY** There are six types of **overpayment recoveries** that can be made by Departments:

- Full Recovery (recovery of an entire paycheck)
- Partial recovery for active employees
- Partial recovery for inactive employees
- Industrial Accident Buy Backs
- Recovery of payments to contract employees
- Recovery of funds affecting a previous tax year

In some cases, these adjustments require a two-step adjustment process. First the adjustment must be done in PCRS and, second, an adjustment must be done in HR/CMS to ensure that labor history in PCRS, payroll costing in HR/CMS, and payroll expenditures in MMARS are always in sync. Overpayment recoveries and required adjustments should be done within 30 days of the overpayments.

Full Recovery of Overpayments (Recovery of Entire Payments)

When an employee receives a full paycheck in error, it is the Department's responsibility to recover the overpayment return, put the money back into the Department's payroll account in the accounting system. All deductions made on an employee's behalf must also be recovered from the appropriate vendors. This is accomplished by making adjustments in both HR/CMS and PCRS. The Department must take the following steps:

1. Send the employee a certified letter requesting the return of the full overpayment in the form of a money order, bank check or certified check. If the employee does not send the full payments, the Department should contact the State Retirement Board in writing and request that a lien be placed on that employee's retirement payout for the amount that the employee owes.
2. Contact the appropriate vendor(s) and payees, requesting the return of the full amount(s) for each deduction.
3. Once the full payments are received from the employee and vendor(s), enter an Expenditure Refund transaction (XE or XC depending on the fiscal year of the original payment) in PCRS for the full amount. This will adjust labor history in PCRS and accounting information in MMARS. Please refer to the PCRS Procedures Manual for more information on entering the XE/XC.
4. Submit a completed Payroll Refund Receipt Voucher Form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account, to be swept by the State Treasurer.
5. Monitor the XE/XC in PCRS to ensure the transaction is processed completely and updates labor history and MMARS. Monitor HR/CMS to ensure that there is an off-cycle check processed and that it updates the employee's year-to-date balances.

Partial Recovery for Active Employees

When an overpayment is made to an employee who is currently active in the payroll system, it is the Department's responsibility to recover the amount that was overpaid. This is accomplished by making an adjustment in HR/CMS. One of the following steps must be taken:

1. If the overpayment was caused by Time and Labor entries, perform prior period adjustments in Weekly Elapsed Time to correct the error. If possible, make this correction in the next pay period. If you cannot recover the total amount in one pay period, use the next pay period(s) until the total recovery amount is satisfied.
2. If the overpayment was caused by Additional Pay entries, you should reduce the employee's earnings by the overpayment amount in the next pay period, if possible. The same earnings code should be used whenever possible. If you cannot recover the total amount in one pay period, use the next pay period(s) until the total recovery amount is satisfied.
3. Recoveries of overpayment to active employees cannot bridge calendar years. If it would be necessary to recover the overpayment and the next pay period falls within the next tax year, please see **Recovery of Funds for a Previous Tax Year** for details.

Partial Recovery for Inactive Employees

When an inactive employee receives money in error, it is the Department's responsibility to recover the amount that was overpaid, put the money back into the Commonwealth's treasury, and record the refund in the accounting system. When applicable, deductions made on an employee's behalf must also be recovered from the appropriate vendors. This is accomplished by making adjustments in both HR/CMS and PCRS. The Department must take the following steps:

1. Send the employee a certified letter requesting the return of the overpayment in the form of a money order, bank check or certified check. If the employee does not send the payment, the Department should contact the State Retirement Board in writing and request that a lien be placed on that employee's retirement payout for the amount that the employee owes.
2. If applicable, contact the appropriate vendor(s), requesting the return of the full amount(s) for each deduction.
3. Once the payments are received from the employee and vendor(s), enter an Expenditure Refund transaction (XE or XC depending on the fiscal year of the original payment) in PCRS for the full amount. This will adjust labor history in PCRS and accounting information in MMARS. Please refer to the PCRS Procedures Manual for more information on entering the XE/XC.
4. Submit a completed Payroll Refund Receipt Voucher Form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account, to be swept by the State Treasurer.
5. Monitor the XE/XC in PCRS to ensure the transaction is processed completely and updates labor history and MMARS. Monitor HR/CMS to ensure that there is an off-cycle check processed and that it updates the employee's year-to-date balances.

Industrial Accident Buy Backs

When an employee buys back sick (or other) time that she/he used while on industrial accident leave, it is the Department's responsibility to calculate the amount the employee owes for the buy back and put the money back into the Commonwealth's treasury, and record the refund in the accounting system. This is accomplished by making adjustments in both HR/CMS and PCRS. The Department must take the following steps:

1. Once the payments are received from the employee, enter an Expenditure Refund transaction (XE or XC depending on the fiscal year of the original payment) in PCRS for the full amount. This will adjust labor history in PCRS and accounting information in MMARS. Please refer to the PCRS Procedures Manual for more information on entering the XE/XC.
2. Submit a completed Payroll Refund Receipt Voucher Form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account, to be swept by the State Treasurer.
3. Monitor the XE/XC in PCRS to ensure the transaction is processed completely and updates labor history and MMARS. Monitor HR/CMS to ensure that there is an off-cycle check processed and that it updates the employee's year-to-date balances.

Recovery of Payments to Contract Employees

When a contract employee receives money in error, it is the Department's responsibility to recover the amount that was overpaid and put the money back into the Commonwealth's treasury, and record the refund in the accounting system. When applicable, deductions made on the employee's behalf must also be recovered from the appropriate vendors. This is accomplished by making adjustments in both HR/CMS and MMARS. The Department must take the following steps:

1. Send the employee a certified letter requesting the return of the overpayment in the form of a money order, bank check or certified check. If applicable, contact the appropriate vendor(s), requesting the return of the full amount(s) for each deduction.
2. Once the payments are received from the employee and vendor(s), enter a Contract Back out (CB) in MMARS for the full amount. Edit the CB to put it in PEND5 status. Please refer to the MMARS Manual for information on how to enter this transaction.
3. Submit a completed Payroll Refund Receipt Voucher Form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account, to be swept by the State Treasurer.
4. Monitor the CB in MMARS to make sure the transaction processes completely. Monitor HR/CMS to ensure that there is an off-cycle check processed and that it updates the employee's year-to-date balances.

Recovery for Funds Affecting a Previous Tax Year

When funds are recovered for a previous tax year (i.e., funds received in February for a payment made in November), the Department needs to complete an additional step: completing forms W2C and W3C, accounting for the changes in the employee's tax balances, and submitting it to the Comptroller's Payroll Unit. The Department must take the following steps:

1. Send the employee a certified letter requesting the return of the overpayment in the form of a money order, bank check or certified check. If the employee does not send the payment, the Department should contact the State Retirement Board in writing and request that a lien be placed on that employee's retirement payout for the amount that the employee owes.
2. If applicable, contact the appropriate vendor(s), requesting the return of the full amount(s) for each deduction.
3. Once the payments are received from the employee and vendor(s), enter an Expenditure Refund transaction (XE or XC depending on the fiscal year of the original payment) in PCRS for the full amount. This will adjust labor history in PCRS and accounting information in MMARS. Please refer to the PCRS Procedures Manual for more information on entering the XE/XC.
4. Submit a completed Payroll Refund Receipt Voucher Form to the State Retirement Board for processing. Check recoveries should be deposited into the Department's bank account, to be swept by the State Treasurer.
5. Submit a W2C and W3C to the Comptroller's Payroll Unit. A refund receipt voucher for a previous tax year without a W2C and W3C will not be processed by the Comptroller's Office.
6. If an employee repays wages received in error in a prior year, the form W2c will correct only Medicare wages and Medicare tax. Wages paid in error in a prior year remain taxable to the employee for that year. This is because the employee received and had use of those funds during that year. This is consistent with the IRS Instructions for Forms W-2c and W-3c.
7. Monitor the XE/XC in PCRS to ensure the transaction is processed completely and updates labor history and MMARS. Monitor HR/CMS to ensure that the W2C is processed.

Underpayments to Employees

For active employees, make an adjustment in Weekly Elapsed Time and/or add an Additional Pay entry to make up for the underpayment. Make this correction in the next pay period, if possible. If you cannot pay the total amount in one pay period, use the next pay period(s) until the total amount is paid.

For inactive employees, please refer to the job aid entitled **Retro Pay for Terminated Employees**.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller establishes/identifies and implements the policy on Prior Period Payroll Adjustments.

AUTHORITY

Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 29

CHAPTER 7	PAYROLL ACCOUNTING
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POLICY TITLE: CLOSING A FISCAL YEAR

DATE ISSUED: 6/28/02

POLICY #: 7-4

PAGE(S): 2

POLICY

State finance law defines the budget fiscal year for all payments, including payrolls, to begin on July 1st and end on June 30th of the subsequent year. Services rendered by employees through June 30th must be charged to the FY Closing. The state employee payroll charges will be split for services rendered before June 30th and after July 1st prior to interfacing with MMARS. Departments must ensure that contract employee services prior to June 30th reference the correct fiscal year service contract in the state accounting system (MMARS) with dates of service prior to June 30th.

Sufficient Funding

Commonwealth Departments are responsible for planning to ensure that sufficient funding is available in MMARS to cover end of the year payroll expenditures (including related payroll taxes such as Medicare, UI and UHI) for both state and contract employees.

Cleaning Up Adjustment Transactions

Closing a fiscal year requires that Departments clean up any outstanding payroll reject or expenditure refund transactions before the closing of the prior fiscal year.

Payroll Reject Transactions

A Payroll Reject (XD) transaction (MMARS PR for HRMIS) is generated when a payroll expense which is processed by HR/CMS, or HRMIS, has missing or erroneous data (e.g., incorrect expense budget or a missing program code). All XD and PR transactions must be corrected before the first payroll run of the new fiscal year. Departments must post XDs and PRs to accounting period 12 to insure that payroll expenditures are recorded in the appropriate fiscal year.

Expenditure Refund Transactions

For payroll refunds, Departments are required to process the Expenditure Refund transaction (XE) for payroll (MMARS ER for HRMIS) or a MMARS Contract Backout (CB) for contractor payroll on or before June 30th. Departments should take special care to clean up all outstanding Payroll Refund Receipt Vouchers prior to the final fiscal year payroll, so they only need to handle the few from the final payroll in July.

Irregular Balances

State Finance Law requires that funding be in place before employees are allowed to provide services for the Department. This means that Departments should not hire any employees unless there is sufficient funding to cover payroll expenditures (including related payroll taxes such as Medicare, UI and UHI) in order to prevent negative (irregular) balances to occur in MMARS. Departments must correct negative (irregular) balances immediately.

Accounts Payable Payroll

There are two types of Accounts Payable payroll in the Commonwealth: State Employee Accounts Payable and Contract Employee Accounts Payable.

For State Employee Accounts Payable payroll, Departments need to reserve (encumber) that portion of the account balances that will be used to support this accounts payable payroll using a Payroll Hold (PH) transaction in MMARS.

For Contract Employee Accounts Payable payroll, Departments are responsible for insuring that funds are made available in the prior fiscal year's MMARS Service Contract in order for the accounts payable payment to process.

PCRS Rules Table and Employee Default Rollover

Unless otherwise indicated, all PCRS Rules tables and Employee Defaults will roll over from the prior fiscal year into the new fiscal year.

If Departments choose not to have any of their PCRS Rules tables rolled over into the next fiscal year, they must enter an "N" on the PCRS Rollover Table next to those tables they do not want rolled over. In addition, if Departments choose not to have their current defaults rolled over into the next fiscal year, they must enter an "N" next to the "Labor Defaults" field located on the PCRS Rollover Table. Their new fiscal year defaults will then be inferred by PCRS at the statutory level only (Department, Organization, Account, Subsidiary, Object Code).

For Complete Instructions on Closing a Fiscal Year see the Comptroller issued Close/Open Instructions at:

<http://www.state.ma.us/osc/Homeview/OpenClose/OpenClose.html>

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller establishes/identifies and implements the policy on Closing a Fiscal Year.

AUTHORITY

The Commonwealth of Massachusetts Annual Closing/Opening Instructions issued by the Office of the Comptroller
Massachusetts General Laws, Chapter 4, Section 7, Ninth
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8

CHAPTER 7 PAYROLL ACCOUNTING

POLICY TITLE: OPENING A NEW FISCAL YEAR

DATE ISSUED: 6/28/02

POLICY #: 7-5

PAGE(S): 3

POLICY

State finance law defines the budget fiscal year for all payments, including payrolls, to begin on July 1st and end on June 30th of the subsequent year. The official opening of the new fiscal year takes place with the issuance of a memorandum by the Comptroller. In this memorandum, the Comptroller notes the official opening of both the payroll systems and MMARS. At that time all accounts in all funds are registered in MMARS, consistent with the General Appropriation Act (GAA).

If a General Appropriation Act is not enacted by the Senate and House and signed by the Governor on or before July 1, an interim budget is needed. An interim budget begins with the Governor filing a bill with the Senate and House that provides for funds to meet expenditures to maintain necessary services through a specific date by which it is anticipated that the General Appropriation Act will be in place.

Employee payrolls will be processed and payments will be issued as long as there is an approved interim budget. No special processing is required if your FY Closing payroll account will continue in the provisional accounts loaded for FY Opening.

Please refer to the annual Closing/Opening document for further instruction. The Closing/Opening document can be found on the Comptroller's website:

<http://www.state.ma.us/osc/Homeview/OpenClose/OpenClose.html>

Rollover of Accounting, Reference and Payroll Tables

As the current fiscal year comes to a close on June 30th, and the new fiscal year begins on July 1st, a series of MMARS, HR/CMS and PCRS tables and defaults are rolled over from the previous fiscal year into the new fiscal year.

MMARS Reference and Financial tables are rolled in April. In May, provisional obligation ceilings are loaded into MMARS, and once the General Appropriation Act (GAA) is approved, these provisional obligation ceilings are removed and the GAA is loaded into MMARS for the new fiscal year.

Rollover of Positions in HR/CMS

Every position in HR/CMS is tied to an account code (i.e. 2000CTR99119911). Each fiscal year HR/CMS will replace the fiscal year part of the account code with the new fiscal year's value. This is done after the split fiscal year payroll has been processed.

Departments are still responsible for realigning positions with account codes due to any changes in their MMARS appropriation accounts.

Rollover of PCRS Tables and Employee Default Schedules

The Payroll Cost Reporting System (PCRS) rolls over a series of rules tables and employee defaults from the previous fiscal year into the new fiscal year. These PCRS rules and defaults must be maintained by Departments so that employees' biweekly payroll charges will be distributed to the correct cost centers.

These PCRS rules roll into the new fiscal year for each Department unless otherwise indicated by the Department:

- Non-statutory rules (Sect-1, Sect-2, Dept-1 through Dept-6, Org Code, Program Code, Program Code/Dept-1 and Non Statutory Requirements).
- Approved current fiscal year statutory rules (Position Assigned #1 through #4) roll to a pend (P) status. Any pending or disapproved rules in the current fiscal year do not roll forward into the new fiscal year.

Alternate Account and Account Specific rules do not roll over; they must be applied for with each new fiscal year.

It is strongly recommended that every Department review each of their new fiscal year defaults before the end of June. This will alert the user to any errors with the new fiscal year default (invalid Program Code, Department-defined criteria etc.), and thus will greatly reduce the chance that an insufficient funds (XF) or payroll reject (XD) transaction will occur with the first payroll production run of the new fiscal year. If a Department's PCRS rules/defaults are not in place for the first payroll production run of the new fiscal year, they run the risk of having their payroll reject.

PCRS Rules Approval Process

PCRS Rules tables roll to a pending status in May. Departments can start submitting their rules requests to the Payroll Unit at the Office of the Comptroller for the new fiscal year in May. To ensure that rules are approved and ready for use in the new fiscal year, Departments must initiate the PCRS Rules Approval Process.

Processing Adjustments

After the GAA has been loaded in MMARS, Departments must reconcile the accounting discrepancies resulting from the fiscal year transition period.

Insufficient Funds/Payroll Rejects

Departments who have insufficient funding in their new fiscal year accounts will generate an Insufficient Funds Transaction (XF for HR/CMS, IF for E*MPAC) with the first payroll run of the new year. Those Departments with incorrect data on any of their payroll charges will generate Payroll Reject Transactions (XD for HR/CMS, PR for E*MPAC) with the first payroll run of the new year. These system generated transactions must be corrected/processed as soon as possible to ensure expenditures charge against the proper accounts.

Expenditure Refunds

Payroll refunds for non-continuing accounts, and appropriation type 01 (budgeted accounts), received after July 1st, should be processed using the MMARS CD transaction for HRMIS Departments and the PCRS XC transaction for HR/CMS Departments. These will be treated as miscellaneous revenue in the FY Opening. Departments should enter an XC into PCRS to correct payroll information, and should make the appropriate adjustment entries in HR/CMS.

Payroll Refunds for continuing accounts, such as federal or trust accounts, received after July 1st should be processed through the PCRS XE or MMARS ER transactions and will be adjusted in the Department's FY Opening account.

For refunds received in the current fiscal year for prior year expenditures in a non-continuing or budgetary account, an XC transaction is used to process the refund. An XC (Cash Transfer) functions in the same way as an XE within PCRS, however, the XC records a cash deposit (not an expenditure reduction).

Split Fiscal Year State Employee Payroll Processing

When a payroll cycle spans both fiscal years, services rendered by employees through June 30th will be charged to the Closing FY. Services rendered after June 30th will be charged to the Opening FY. The payroll system will split the charges appropriately between fiscal years prior to interfacing with MMARS. It is the Department's responsibility to make sure both fiscal years are funded appropriately.

Departments should take the necessary steps to update their employees' PCRS Labor Cost Accounting Defaults to accurately reflect any accounting changes for the FY Opening. During the split week, both the Closing and the Opening fiscal year defaults and exception screens will be available to Departments for posting purposes. After the split week payroll has processed, only the FY Opening's default and exception screens will be available to the user for regular payroll processing.

Split Fiscal Year Contract Employee Payroll Processing

When a payroll cycle spans both fiscal years, services rendered by contract employees through June 30th must be charged to a Closing FY service contract in MMARS. Contract employee services rendered after June 30th must be charged to the new Opening FY service contract in MMARS.

For Complete Instructions on Opening a Fiscal Year see the Comptroller issued Close/Open Instructions at:

<http://www.state.ma.us/osc/Homeview/OpenClose/OpenClose.html>

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies and implements the policy on Opening a New Fiscal Year.

AUTHORITY

The Commonwealth of Massachusetts Annual Closing/Opening Instructions issued by the Office of the Comptroller
Massachusetts General Laws, Chapter 4, Section 7, Ninth
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8

CHAPTER 7	PAYROLL ACCOUNTING
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POLICY TITLE: **PAYROLL WARRANT PROCESSING**

DATE ISSUED: **6/28/02**

POLICY #: **7-6**

PAGE(S): **1**

POLICY Massachusetts General Law Chapter 7A Section 3 states one of the duties of the Comptroller as reviewing requests for payment and presenting a “certificate” to the Governor, who following review by the Governor’s Council, issues a warrant to the Office of the State Treasurer for the payments on the “certificate” to be disbursed.

Payroll is a certified expenditure on the warrant and must be included as part of the warrant each time the payroll process is successfully completed. Department heads or their designees must certify payroll expenditures to the Comptroller for inclusion on the warrant in accordance with the Payroll Expenditure Approval policy in Chapter 5 of this manual. This certification must be done biweekly or each time payroll expenditures are presented for payment.

APPLICABILITY This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY The Office of the Comptroller establishes/identifies and implements the policy on Payroll Warrant Processing.

AUTHORITY Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8

CHAPTER 8 TAX ADMINISTRATION

POLICY TITLE: NON-RESIDENT ALIEN TAX TREATY

DATE ISSUED: 6/28/02
POLICY #: 8-1
PAGE(S): 2

POLICY

Non-Resident aliens are individuals who are not U.S. citizens or residents, and are subject to the same federal income tax withholding requirements as other employees for all of their income that is from U.S. sources, with some exceptions. The U.S. has income tax treaties with more than 45 countries that exempt or reduce the amount of withholding from wages earned by non-resident aliens in the U.S. if certain conditions are met. Some treaties have different exemptions or reductions for income earned by independent contractors and by employees.

Substantial Presence Test

A "Substantial Presence Test" is used to determine the residence status of a foreign citizen for withholding tax purposes.

A foreign citizen is considered a resident alien for tax purposes if:

- Foreign citizens that are a lawful permanent resident of the United States (had a "Green Card") at any time during the current full tax reporting year.
- Physically present in the U.S. for at least 31 days during the current full tax reporting calendar year; and
- 183 days during the current full tax reporting year and the 2 preceding tax reporting years, counting all the days of physical presence in the current tax reporting year, but only one-third the number of days of presence in the first preceding tax reporting year, and only one-sixth the number of days in the second tax reporting preceding year.

Foreign citizens who do not meet these requirements are considered non-resident aliens for tax purposes. The "Substantial Presence Test" has nothing to do with the foreign citizen's intent in staying in the U.S. or whether they have an immigrant or nonimmigrant visa.

For further information on the "Substantial Presence Test" and "Green Card Test", search for these terms on the IRS website. Search also for the term "Tax Topic 851", and see Publication 519 under IRS Publications. The IRS website is:

<http://www.irs.gov>

Tax Treaty Benefits

Residents of certain foreign countries may be entitled to reduced tax rates or tax exemption under a tax treaty between their country of residence and the United States. To claim benefits of a treaty, an employee must have a visa and be a resident of one of the treaty countries. An employee can claim benefits of only one treaty at any given time. Employees wishing to claim benefits under a tax treaty must submit a written statement to their employer, along with applicable forms (W-4, Form 8233, Form W-8BEN).

According to IRS regulations, if you pay wages to nonresident aliens, you must withhold income tax, social security, and Medicare taxes as you would for a U.S. citizen (unless excepted by federal regulation).

The Commonwealth is required to produce an IRS Form 1042-S for each non-resident alien employee affected by special withholding rates or affected by different taxation rates on specific types of earnings, such as scholarships, grants and fellowships. Earnings reported on a 1042-S are not reported on a W2; so, an employee may need both a W2 and a 1042-S if some earnings are covered by the special tax treaty rates and some are not.

Non-Resident Alien Paperwork

Employers must obtain this paperwork from each non-resident alien:

- Employee's social security number, taxpayer identification number or foreign visa;
- A completed W-8BEN Form (Certificate of Foreign Status of Beneficial Owner for United States Tax Withholding), attesting to the non-resident alien's identity, foreign status and exemption from withholding based on an income tax treaty, if applicable;
- A completed W-4 Form (Employee's Withholding Allowance Certificate).

W-8BEN Forms can be found on the IRS website:

http://www.irs.gov/forms_pubs/forms.html

Claiming Exempt on Form W-4

Non Resident Alien employees who claim an exemption from tax withholding on their Form W-4 must submit a new Form W-4 annually, attesting to their exempt status. Claims of exemption can be in effect for a maximum of one calendar year at which time the employee must re-file to claim Exempt status. If the employee does not submit a new Form W-4 for the new calendar year by February 15th of that year, they will have their tax status reset to the single status rate, with no withholding allowances.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Internal Revenue Service establishes/identifies the policy on Non Resident Alien Tax Treaties. The Office of the Comptroller implements said policy for Commonwealth employees.

AUTHORITY

IRS Publication 515 "Withholding of Tax on Nonresident Aliens and Foreign Corporations"
IRS Publication 519 "U.S. Tax Guide for Aliens"
IRS Publication 901 "U.S. Tax Treaties"
Internal Revenue Code, Section 1441
Internal Revenue Code, Section 871-879
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8

CHAPTER 8	TAX ADMINISTRATION
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POLICY TITLE: TAX REFUNDS

DATE ISSUED: 6/28/02
POLICY #: 8-2
PAGE(S): 2

POLICY

The Payroll Unit at the Office of the Comptroller manages requests for payroll tax refunds for all state Departments. Payroll taxes include federal withholding, state withholding and Medicare tax.

Departments can request payroll tax refunds from the Office of the Comptroller when an error has been made on an employee's tax withholding. Only those employees who have had tax withheld in error are eligible to receive a refund.

Federal Tax Refunds

The Office of the Comptroller can refund both Federal and State Taxes for the current W2 year only. The Department should make adjustments in the subsequent pay periods or submit to Comptroller's Office a Refund Request form.

Both Federal and State Tax Refund Request Forms can be found on the Comptroller's website:

<http://www.osc.state.ma.us/Payinfo/payroll/FormsOnDemand.htm>

Medicare Tax Refunds

The Office of the Comptroller can refund Medicare Tax for the current and prior three W2 years.

For a current year Medicare tax refund, the Department must submit:

- A completed and signed "Medicare Tax Refund Request" form; and
- A screen print of the employee's Medicare tax year-to-date balance.

For a prior year Medicare tax refund, the Department must submit:

- A completed and signed "Medicare Tax Refund Request" form;
- The employee's Form W-2;
- A completed Form W-2C; and
- A completed Form W-3C form.

After the appropriate paperwork has been submitted by the Department, the Comptroller's office will:

- Review and process the refund based on IRS regulations and guidelines;
- Request the refund payment from the Office of the State Treasurer (TRE);
- Mail refunds to the employee's home address;
- Correct the employee's W-2 file prior to the end of the year (current year); or
- File a corrected tax reporting form with the appropriate government entities (prior year).

Tax Refund Request Forms can be found on the Comptroller's website:

<http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm>

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller establishes/identifies and implements the policy on Tax Refunds.

AUTHORITY

Consolidated Omnibus and Reconciliation Act of 1986 (COBRA), Section 13205
Comptroller Memo #26 "Medicare Coverage for New Employees" as amended
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 62C, Sections 36 and 40
Form W-2 and Instructions
Form W-2c and Instructions
IRS Publication 963

CHAPTER 8	TAX ADMINISTRATION
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POLICY TITLE: NON-CASH EMPLOYEE BENEFITS

DATE ISSUED: 6/28/02

POLICY #: 8-3

PAGE(S): 2

POLICY

Non-cash benefits are benefits the Commonwealth provides to its employees in exchange for services provided by those employees to the Commonwealth. These non-cash benefits are assigned a value and are reported on an employee's W-2 as earned income. These benefits are recorded in the state payroll system and reported on the employee's W-2. Please refer to IRS Publication 15-B, "Employers Tax Guide To Fringe Benefits" for additional guidance on non-cash fringe benefits and their valuations.

Some examples of non-cash benefits are listed below.

Commonwealth Non-Cash Benefits include:

- Parking
- Tangible Assets
- Housing Allowances
- State or Leased Car Usage
- Group Term Life Insurance Coverage (Imputed Income)

Parking

Employees who have the use of parking at Commonwealth owned garages or Commonwealth leased parking are receiving a transportation parking fringe benefit. Employers, who provide free parking valued in excess of the limits specified in IRS Code 132(f) and the appropriate Massachusetts Department of Revenue Technical Information Release, are required to add any excess value to the employees' gross income for tax reporting and withholding purposes. For W-2 tax reporting purposes, the federal parking benefit amount is added to the employee's federal wages and the state parking benefit amount is added to the employee's state wages.

Please refer to Comptroller Memo FY2001-16, Comptroller Memo 296, 296A and 296B for more detailed information on qualified transportation parking fringe benefits.

Tangible Assets

Employees who receive property or payments for property (equipment or other assets) and ownership of the property is transferred to the employee, are receiving a "one time" tangible assets benefit. This non-cash benefit is a W-2 reportable event.

Housing Allowances

Employees who either live in state owned property or a property in which the state pays the rent on the employee's behalf are receiving a housing allowance benefit. This non-cash benefit is a W-2 tax reportable event.

State or Leased Car Usage

Employees who have the use of a state owned car for domicile travel or who use a car owned or leased by the state are receiving a state car usage benefit. This non-cash benefit is a W-2 tax reportable event. Contact the Operational Services Division (OSD) for appropriate use and charges.

Group Term Life Insurance (Imputed Income)

Commonwealth provided Group Term Life Insurance with a value of \$50,000 or less is a tax-free benefit to the employee, if it is provided in a non-discriminatory fashion. The value of the cost of the coverage in excess of \$50,000 is a non-cash benefit and must be reported on the employee's W-2. Currently this applies to the Higher Ed employees enrolled in optional retirement plans.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller and appropriate Human Resource oversight officials jointly establish/identify and implement the policy on Non-Cash Employee Benefits.

AUTHORITY

IRC Section 132 (f)
IRS Publication 15-B "Employer's Tax Guide to Fringe Benefits"
Comptroller Memo FY2001-16 as amended
Comptroller Memo #296, 296A, 296B as amended
IRS Regulations Section 1.61-21 (f)(3)
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 7, Section 28
Massachusetts General Laws, Chapter 62, B and C
Publication 525 Taxable and Non-Taxable Income

CHAPTER 8	TAX ADMINISTRATION
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POLICY TITLE: TAXABLE PAY PERIOD ADJUSTMENTS

DATE ISSUED: 6/28/02

POLICY #: 8-4

PAGE(S): 2

POLICY Employees who receive regular wages equal to or greater than 4 weeks during one pay period may be eligible to have their taxable pay periods adjusted in order to accurately withhold the taxes for that pay period. This may happen if an employee was erroneously not paid for the prior pay period or, in the case of higher education adjunct faculty, the pay is scheduled for more than one pay period.

Clarification of Wages that May Be Eligible for Taxable Pay Period Adjustment

Wages that are eligible for adjustment are those which are taxed at an annualized rate and only for instances where the employee is receiving ordinary wages for more than one pay period. For example, if you are posting 4 weeks of regular pay to an employee in one pay period, (i.e. the employee was not paid through the system for the prior pay period), the number of taxable pay periods may be changed from the default of 1 to 2. The tax would then be calculated based on 2 pay periods, which equals 4 weeks.

Earnings Codes Not Eligible for Taxable Pay Period Adjustment

When employees receive payments that are not part of their ordinary wages, there is a special rule that is applied to withhold federal income tax from those payments. Such payments are known as “supplemental wages” and may be paid at the same time as regular wages are paid.

Some examples that are subject to supplemental tax are:

- Overtime
- Bonuses, prizes and awards
- Back pay awards
- Retroactive pay
- Payments for unused annual leave (i.e. sick and vacation payouts)
- Settlements/Judgments
- Area differential premium
- Cruise Stipend
- Detail pay overtime
- Education percent OTP
- Parole officer supplemental pay
- Recall pay premium
- Snow and ice OTP

Earnings codes that represent these types of wages will always be taxed at a supplemental rate. If your intent is to pay ordinary wages for more than a biweekly pay period (2 weeks), you must post to an earnings code that is not supplementally taxed in order to be eligible for a taxable pay period adjustment. Refer to Comptroller Memo FY2002-15.

According to the IRS-Circular E, Publication 15/Rev.1/00, under the subtitle "Supplemental Wages", it states that "supplemental wages are compensation paid in addition to the employee's regular wages. They include, but are not limited to, bonuses, commissions, overtime pay, payments for accumulated sick leave, severance pay, awards, prizes, back pay and retroactive pay increases for current employees, and payments for nondeductible moving expense; as well as taxable fringe benefits." Please refer to the IRS Circular E for more detailed information.

Additional Withholding Tax Considerations

Employees who are requesting a taxable pay period adjustment and have federal or state additional withholding taxes in HR/CMS need to be aware that the HR/CMS system applies the additional withholding amounts against the number of pay periods entered. This means that if you adjust the number of taxable pay periods to 4, the system will apply any additional tax withholding amount 4 times, which can result in a large tax deduction. The workaround for this issue is to temporarily stop the additional withholding amount from processing for the same pay period the taxable pay period adjustment is being done in, and then reinstating the tax for the next pay period.

Taxable Pay Period Adjustments:

- Are administered by the Department;
- Are available to employees who receive wages equal to or greater than 4 weeks in one pay period; and
- Are not available for earnings that are taxed supplementally.

Departments are responsible for ensuring that the gross pay of the employee(s) meets the requirement of being more than their regular biweekly pay by the number of pay periods requested. For example, if the employee's gross pay (less any supplemental wages) is 6 times their regular biweekly pay, they would be eligible for a taxable pay period adjustment of 6.

Departments should also segregate the duties associated with applying taxable pay period adjustments in HR/CMS. One person should be assigned to review and approve the request and another person should be assigned to data enter the adjustment. Security to the taxable pay period adjustment panel will be available upon request to the departmental Payroll Director or payroll personnel authorized by the Payroll Director.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller establishes/identifies the policy on Taxable Pay Period Adjustments.

AUTHORITY

IRS Publication 15, "Circular E Employer's Tax Guide"
Massachusetts General Laws, Chapter 7A, Sections 3, 7, 8

CHAPTER 8	TAX ADMINISTRATION
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POLICY TITLE: **ARMED FORCES' TAX GUIDE**

DATE ISSUED: **6/28/02**

POLICY #: **8-5**

PAGE(S): **1**

POLICY

For federal tax purposes, the U.S. Armed Forces includes commissioned officers and enlisted personnel in all regular and reserve units under control of the Secretaries of the Defense and the Governor, including the Army, Navy, Air Force, Marines, National Guard and the Coast Guard. It does not include members of the U.S. Merchant Marine or the American Red Cross.

Gross Income

Members of the Armed Forces receive many different types of pay and allowances. Some are included in gross income while others are excluded from gross income. Included items are subject to tax and must be reported on tax return. Excluded items are not subject to tax, but may have to be shown on tax return.

These payments are recorded in the state payroll system and reported on the employee's W-2. Please refer to IRS Publication 3, "Armed Forces' Tax Guide" for additional guidance.

The Commonwealth makes payments for the following excluded items:

Living allowances

- ☐ BAH (Basic Allowance for Housing)
- ☐ BAS (Basic Allowance for Subsistence)

Note: The exclusion for certain items applies whether the item is furnished in kind or is a reimbursement or allowance.

APPLICABILITY

This policy applies only when employees are working for the Department of the Military and paid through HR/CMS.

**RESPONSIBLE
PARTY**

The Office of the Comptroller and appropriate human resource authorities jointly establish/identify and implement the policy on Armed Forces' payments.

AUTHORITY

IRS Publication 3, "Armed Forces' Tax Guide"

CHAPTER 9	REPORTS MANAGEMENT/WAREHOUSE
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POLICY TITLE: PAYROLL REPORTS MANAGEMENT/WAREHOUSE

DATE ISSUED: 6/28/02

POLICY #: 9-1

PAGE(S): 2

POLICY

Payroll information is available in a variety of ways. The Commonwealth Information Warehouse, which stores the Commonwealth's payroll and accounting data, and ViewDirect/DocumentDirect, which gives users access to online payroll and audit reports, are two of the most commonly used methods of retrieving payroll information.

It is the policy of the Comptroller's office that audit trail and all standard payroll reports will be electronically available to all Departments. These reports will be run on a predetermined schedule and archived in ViewDirect/DocumentDirect. All data related to payroll will be available in the Commonwealth's Information Warehouse.

Standard payroll reports as detailed in the Best Practices Document will be available in ViewDirect/DocumentDirect, and for those users who want to access historical data or create their own ad hoc reports, the Information Warehouse will continue to store historical and current payroll information.

The Information Warehouse has been the source of Payroll Cost Reporting System (PCRS) labor distribution and earnings data since July of 1994. Financial data is available in the Warehouse from Fiscal Year 1993 to the present fiscal year.

All Commonwealth payroll systems must support the creation of audit trail report and standard payroll transaction verification reports.

The Office of the Comptroller and the Human Resources Division provide Departments with a biweekly guide, the Best Practices Document, for processing payroll. This document details the steps, reports and deadlines that are to be reviewed in order to complete payroll. The Best Practices Document can be found at the Comptroller's website at:

<http://www.state.ma.us/osc/Payinfo/payroll/BestPractice030602.pdf>

Commonwealth Information Warehouse

The Commonwealth Information Warehouse is a centralized, integrated database that gathers data from a variety of source systems (Accounting data from MMARS, Payroll Cost data from PCRS, and Personnel data from HR/CMS).

The Information Warehouse has been the source of Payroll Cost Reporting System (PCRS) labor distribution and earnings data since July of 1994. Financial data is available in the Warehouse from Fiscal Year 1993 to the present fiscal year, and Human Resource data is available from Fiscal Year 1995 to the present fiscal year.

It is important to note that the data available in the Information Warehouse is only accessible with specific authorization by individual Departments through a standard query tool, such as Microsoft Access or Excel. Unlike standard reports available on ViewDirect/DocumentDirect, the Warehouse is designed to answer specific questions put forth by the user, using the previously mentioned query tools.

For more information on using the Information Warehouse, please visit their website at <http://www.iw.state.ma.us/>, or contact the Warehouse Helpline at 1-800-335-4702.

Public Records Confidentiality

Departments will be required to maintain all payroll records in accordance with the confidentiality and public records requirements of Massachusetts General Law Chapters 66, 66A, 801 CMR 3.00, 950 CMR 32.00 and 950 CMR 33.00 as applicable.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies and implements the policy on Payroll Reports Management/Warehouse and, as a member of the Information Warehouse Executive Committee, provides requirements for payroll data in the Commonwealth's Information Warehouse.

AUTHORITY

801 CMR 3.00 Privacy and Confidentiality
950 CMR 32.00 Public Records Access
950 CMR 33.00 Fair Information Practices
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 66 and 66A

CHAPTER 10	WAGE REPORTING
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POLICY TITLE: YEAR END/W-2 PROCESSING

DATE ISSUED: 6/28/02
POLICY #: 10-1
PAGE(S): 2

POLICY

Once an employer has paid wages that are taxable to an employee in a calendar year, the employer must report to the employee the taxable amounts paid and any tax withheld so the employee can file their individual income tax returns. These amounts must also be reported to the Department of Revenue and the Social Security Administration (SSA) so an employee's earnings and benefit accounts can be properly credited. The SSA shares employee earnings and tax information with the IRS.

The employer reports Forms W-2, Wage and Tax Statements to the SSA, and the state and local taxing agencies. The deadline for issue of a Form W-2 is January 31st of the following year.

Distribution of Form W-2

The Commonwealth's policy is to mail Form W-2's to employees at their home addresses. When an employer is unable, after a reasonable effort, to deliver an employee's Form W-2, the employee's Department is required to keep those copies for four years. Mailing the Form W-2 to an employee's last known address is considered a reasonable effort to make delivery. Employee Form W-2's are available on ViewDirect/DocumentDirect for a period of 7 years.

To ensure proper delivery of Form W-2's, payroll managers must verify that employees' home addresses are accurately recorded in the payroll system prior to W-2 processing. Undeliverable Form W-2's will be returned to the employee's Department, and the Department's Payroll Director is responsible for distributing them to employees. If the employee worked for multiple state Departments during the tax year, the undeliverable W-2 will be returned to the last Department associated with the most recent "active job". If there are multiple jobs, the most recent "job action" will become the selection criteria.

Reissued Form W-2

If an employee loses a Form W-2 or it is destroyed, the employee's Department will reprint Form W-2 using Document Direct. In order to print W-2s in your Department, the "forms" versions of Document Direct for Windows is required. If your Department does not have this version, have your Network Administrator contact the Director of Computer Operations at the Massachusetts Information Technology Center at (617) 660-4555.

Form W-2 Corrections

There are two types of corrections that can be made to a Form W-2, Non-Financial and Financial. Non-Financial corrections are necessary when the employee's name, social security number or address is incorrect on the Form W-2. Financial corrections are necessary when the employee has incorrect wage or tax information on the Form W-2.

Non-Financial W-2 Corrections

If the Department or employee determines that the name or social security number, on an employee's Form W-2 is incorrect, the Department must correct the error in HR/CMS and submit a Form W-2C to the Office of the Comptroller. The Office of the Comptroller will file the Forms W-2C and W-3C with both the Social Security Administration (SSA) and the Department of Revenue (DOR) on behalf of the employee. Please refer to the IRS Instructions for Forms W-2C for more detailed guidance on non-financial W-2 corrections. If the change affects non-financial information, a W-3C is not required.

Financial W-2 Corrections

If the Department or employee determines that the wage or tax information on an employee's Form W-2 is incorrect, the Department must submit a Form W-2C and Form W-3c (Transmittal of Wage and Tax Statements) to the Office of the Comptroller. The Office of the Comptroller will make the necessary changes in HR/CMS and forward the Forms W-2C and W-3C to SSA and DOR on behalf of the employee.

Blank Forms W-2c and W-3c are available at any IRS locations and the John F. Kennedy Building, Government Center, Boston, MA

Electronic fill-in versions of Forms W-2c and W-3c are available on the American Payroll Association Website (<http://www.americanpayroll.org>)

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller establishes/identifies and implements the policy on Year End/W-2 Processing.

AUTHORITY

26 USC §6051
26 USC §31.6051 – 1(d)(1)
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 58, Section 28B
Massachusetts General Laws, Chapter 62B, Section 5
Form W-2 and Instructions
Form W-2c and Instructions
Form W-3c and Instructions

CHAPTER 11	UNEMPLOYMENT INSURANCE and PAYROLL TAX CHARGEBACKS
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POLICY TITLE: **UNEMPLOYMENT INSURANCE REPORTING/UNIVERSAL HEALTH**

DATE ISSUED: **6/28/02**
POLICY #: **11-1**
PAGE(S): **2**

POLICY

Unemployment Insurance (UI)

Unemployment Insurance (UI) coverage for employees of the Commonwealth is governed by Chapter 151A, Section 14C of the Massachusetts General Laws. The Director of the Division of Employment and Training, in conjunction with the U.S. Department of Labor, is authorized to establish an Unemployment Insurance Rate and provide guidelines to employers.

The Office of the Comptroller is responsible for preparing a quarterly Unemployment Insurance Report and for paying Unemployment Insurance premiums to the Division of Employment and Training on behalf of Commonwealth Departments.

Departments are responsible for ensuring that employees are properly classified in the payroll system as to whether they are subject to or not subject to unemployment insurance contributions.

All employees, both state and contract, contribute to Unemployment Insurance. Unless otherwise specified in general or special laws, all wages paid to an employee for services rendered from January 1st to December 31st of any tax year is subject to unemployment contribution.

Wages paid for the following services are excluded from UI contributions:

- Wages paid to elected officials
- Wages paid to judges of the Commonwealth
- Wages paid to clients
- Wages paid to the National Guard
- Wages paid to students who work and attend classes in the same school
- Wages paid to student nurses in the employ of a hospital or school
- Wages paid to interns and research assistants (e.g. judicial clerkships, medical residencies)
- Wages paid to service agricultural laborers
- Wages paid to workers in a private, local college club, or local chapter of a college fraternity or sorority
- Wages paid to independent contractors

At the end of every quarter, the HR/CMS payroll system will provide Unemployment Insurance information to the Payroll Unit at the Office of the Comptroller and the UI Administration Division at the Division of Employment and Training via Information Warehouse reporting.

Universal Health Insurance (UHI)

Universal Health Insurance (UHI) contributions are governed by Chapter 151A, Section 14G of the Massachusetts General Laws. The UHI contribution rate is determined by the Director of the Division of Employment and Training.

Each Department, except those who employ five or fewer employees, is required to pay UHI contribution for each employee.

The Office of the Comptroller is responsible for preparing a quarterly UHI report and for sending the contribution to the Division of Employment and Training on behalf of Commonwealth Departments.

At the end of every quarter, HR/CMS will provide Universal Health Insurance reports to the Payroll Unit at the Office of the Comptroller.

Chargebacks

In order for the Office of the Comptroller to fulfill its obligation to pay Unemployment Insurance and Universal Health premiums on behalf of Commonwealth employees, there is a biweekly chargeback process for each state Department.

UI and UHI contributions are transferred from each Department's payroll account to the Comptroller's UI and UHI account. The Comptroller's office then uses this account to pay the UI and UHI contributions due on behalf of all employees to the Division of Employment and Training (DET).

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

**RESPONSIBLE
PARTY**

The Office of the Comptroller establishes/identifies and implements the policy on Unemployment Insurance reporting and Universal Health Insurance reporting.

AUTHORITY

801 CMR 6.00
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 151A, Section 14C
Massachusetts General Laws, Chapter 151A, Section 14G

CHAPTER 11	UNEMPLOYMENT INSURANCE and PAYROLL TAX CHARGEBACKS
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POLICY TITLE: **MANDATORY PAYROLL TAX CHARGEBACKS FOR MEDICARE,
UNEMPLOYMENT CONTRIBUTION AND UNIVERSAL HEALTH
CONTRIBUTION**

DATE ISSUED:
POLICY #: 6/28/02
PAGE(S): 11-2
2

POLICY

Payroll Taxes

The employee is responsible for paying federal and state employment taxes through HRCMS. There are 3 different payroll taxes that the Commonwealth must pay on behalf of employees. They are Medicare Tax, Unemployment Insurance (UI) contribution and Universal Health Insurance (UHI) contribution. The tax rate for Medicare is set by the Social Security Administration and the rates for UI and UHI are set by the Department of Employment and Training (DES). The taxes are calculated and charged to Departments on a biweekly basis. Payroll taxes are part of the cost of Payroll and must be budgeted as such. For FY2002, they represent approximately 2 percent of the employees' gross payroll and may change in the future.

Departmental Chargeback Process

At the beginning of the fiscal year, the Office of the Comptroller establishes an estimated Inter-Departmental Encumbrance (IE) based on historical chargeback data for the entire fiscal year on behalf of Departments. The IE's will be created based on position assigned account in HRCMS. This applies to both state and contract employees. If a Department has an appropriation specifically set up for payroll tax chargeback in the GAA, CTR will point the charges toward the designated account.

There will be a separate encumbrance for each Payroll Tax (UI, UHI and Medicare). There will be a one-to-one relationship between the Encumbrance (IE) and the Inter Departmental Voucher (IV). Each position assigned appropriation will have its own encumbrances for billing purposes.

All IE documents need to be processed to a "DONE" status as soon as the House I is loaded on MMARS. Each Department is responsible for resolving any rejected IE's prior to the beginning of the fiscal year.

The system will generate automated IV's on a biweekly basis and draw down from the encumbrance. The Departments are responsible to review the MMARS suspense file on a pay period basis and ensure that all rejected IV's are corrected and brought to a "DONE" status. It is the responsibility of the Departments to notify the Comptroller's office of any new accounts which have positions assigned in them. An annual estimate for each tax liability needs to be submitted in order to establish the supporting IE documents.

APPLICABILITY

This policy applies to all Commonwealth Branches and Departments.

RESPONSIBLE PARTY

The Office of the Comptroller, in accordance with Social Security and Department of Employment and Training guidelines, establishes/identifies and implements the policy for the Commonwealth payroll taxes.

AUTHORITY

26 USC §3121 (FICA)
IRC Section 3121(b)(10)(A)
Consolidated Omnibus and Reconciliation Act of 1986 (COBRA), Section 13205
IRS Revenue Ruling 86-88
Massachusetts General Laws, Chapter 7A, Sections 3, 7 and 8
Massachusetts General Laws, Chapter 151A, Sections 14(f) and 14(g)
815 CMR 6.00

CHAPTER 12 RECORDKEEPING AND RECORD RETENTION

POLICY TITLE: **ARCHIVING OF PAYROLL RECORDS**

DATE ISSUED: **6/28/02**
POLICY #: **12-1**
PAGE(S): **3**

POLICY

Retention of Payroll Records

Departments are required to preserve payroll records for seven years from the last date of entry. Compliance with this policy is handled centrally by keeping these payroll audit trail reports on ViewDirect/DocumentDirect for a total of seven (7) years as approved by the Records Conservation Board:

- Payroll Register (Payroll Warrant)
- Payroll Variance Report
- GAAP Accumulated Leave Valuation Report

- Year to Date Report
- W2 Totals

Retention of Forms W-2

Employers are required to keep an employee's Form W-2 for seven (7) years after the due date of the tax for the return period to which the records relate, or the date such tax is paid, whichever is later. Information related to taxes paid by employees must be retained by the employer for at least seven years after the due date of the employee's personal tax return (generally April 15). If an employer files a claim for refund, credit, or abatement of withheld income and employment taxes, records related to the claim must be retained for at least seven (7) years after the filing date of the claim.

Compliance with this regulation is handled centrally by keeping payroll audit trail reports on ViewDirect/DocumentDirect for a total of seven (7) years as approved by the Records Conservation Board.

Retention of Time Logs/Time Records

Departments are required to keep an employee's time logs and time records (sheets/cards) for a minimum of seven (7) years from the last date of entry. Departments should also remain in compliance with recordkeeping requirements under the public records law.

Public Records Confidentiality

Departments will be required to maintain all payroll records in accordance with the confidentiality and public records requirements of Massachusetts General Law Chapters 66, 66A, 801 CMR 3.00, 950 CMR 32.00 and 950 CMR 33.00 as applicable.

Disposal Schedules for Payroll Records

The use of ViewDirect/DocumentDirect as an on-line report storage device has replaced the need to retain and store paper reports. All audit trail reports are kept on-line in ViewDirect/DocumentDirect for seven (7) years from the date of issuance, and all non-audit trail reports are kept on-line for one (1) year from the date of issuance.

Departments are required to keep payroll records one (1) year after audit. If a Department has been notified of a pending audit or has an audit in process, all records pertaining to the audit (Statewide Single Audit, audits performed by the Office of the State Auditor, the Federal Government, or any other Audit group) need to be kept until the completion of the audit. Also, consideration should be given to federal government requirements for retention of records pertaining to federal programs and activities administered by the Commonwealth.

Payroll records management disposal schedules are established for:

- State Employee Payroll Information
- Contract Employee Payroll Information
- Special Payroll Information
- PCRS Adjustment Transactions
- Payroll Audit Trail Reports

The disposal schedules contain information on the purpose of the records, the duplicates location, the length of time the records need to be retained in the offices of the Department creating the records, the length of time the records need to be retained in the State Record Center, the final disposition of the records (i.e. destruction or permanent retention), and the total retention of said records.

Please refer to the updated Comptroller Memo #287, "New Records Management Disposal Schedules" for more detailed information regarding disposal schedules.

Departments have the responsibility of transferring the "record copy" documents to the State Records Center. The documents need to be stored in state record center boxes. Departments must properly label the boxes and need to coordinate the transfer of the documents from their offices to the State Records Center.

These procedures have been instituted to allow prompt access to records if required.

When in doubt, payroll reports should be kept for seven (7) years.

APPLICABILITY	This policy applies to all Commonwealth Branches and Departments.
RESPONSIBLE PARTY	The Office of the Comptroller establishes/identifies and implements the policy on Archiving of Payroll Records.
AUTHORITY	801 CMR 3.00 Privacy and Confidentiality 950 CMR 32.00 Public Records Access 950 CMR 33.00 Fair Information Practices 29 CFR §516.2 and 516.5 "Wage and Hour Division, Department of Labor, Records to be Kept by Employers" 26 CFR §31.6001-1(e)(2) "Employment Taxes and Collection of Income Tax At Source" Comptroller Memo #287 "New Records Management Disposal Schedules" as amended Massachusetts General Laws, Chapter 7A, Sections 3, 5, 7 and 8 Massachusetts General Laws, Chapter 66 and 66A

APPENDIX

The table below lists the forms required (if any) for each payroll deduction, the entity who distributes the form, and a website where the form can be found (where available).

Payroll Deduction Forms Table

Deduction	Form Required	Who Distributes the Form	Form Website
Federal Income Tax	W-4	IRS 15 New Sudbury Street Rm. G65 Boston, MA 02203 (617) 536-1040	http://www.irs.gov/forms_pubs/forms.html
Medicare Tax	No form	N/A	N/A
Refund of Medicare Tax	Medicare Tax Refund Request Form	Office of the Comptroller	http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm
State Income Tax	W-4 or M-4	Department of Revenue 19 Staniford Street Boston, MA 02114 1-800-392-6089	http://www.irs.gov/forms_pubs/forms.html or http://www.massdor.com/forms/formsIndex/taxformswage.htm#w1
Regular Retirement	New Member Enrollment Form	State Retirement Board One Ashburton Place Boston, MA 02108 (617) 367-7770	http://www.state.ma.us/treasury/srb.htm
Alternate Retirement	OBRA Form	Office of the State Treasurer One Ashburton Place, 12 th Flr. Boston, MA 02108 (617) 367-3900	http://www.state.ma.us/treasury/srb.htm
Wage Garnishments	Garnishment Data Input Form Garnishment Payee Request Form	Office of the Comptroller One Ashburton Place, 9 th Flr. Boston, MA 02108 (617) 727-5995	http://www.state.ma.us/osc/Payinfo/payroll/FormsOnDemand.htm
Basic Insurance	Insurance Enrollment/Change Form	Group Insurance Commission PO Box 8747 Boston, MA 02114 (617) 727-2310	http://www.state.ma.us/gic/annualenrollforms.htm
Optional Life Insurance	Life Insurance Form	Group Insurance Commission PO Box 8747 Boston, MA 02114 (617) 727-2310	http://www.state.ma.us/gic/annualenrollforms.htm

Deduction	Form Required	Who Distributes the Form	Form Website
Long Term Disability Insurance	Long Term Income Protection Plan	Group Insurance Commission PO Box 8747 Boston, MA 02114 (617) 727-2310	http://www.state.ma.us/gic/annualenrollforms.htm
Dental/Vision Insurance	Dental/Vision Enrollment/Change Form	Group Insurance Commission PO Box 8747 Boston, MA 02114 (617) 727-2310	http://www.state.ma.us/gic/annualenrollforms.htm
Union Endorsed Special Insurance Deductions	Payroll Deduction Authorization (PDA) for Insurance or other Employee Deductions	Office of the Comptroller One Ashburton Place, 9 th Flr. Boston, MA 02108 (617) 727-5995	http://www.state.ma.us/os/c/Payinfo/payroll/FormsOnDemand.htm
Union Dues	Each Union has a sign up form or signature card.	N/A	N/A
Agency Service Fees	No Form	N/A	N/A
Dependent Care Assistance Program (DCAP)	DCAP Application	Group Insurance Commission, PO Box 8747 Boston, MA 02114 (617) 727-2310	http://www.state.ma.us/gic/dcap.htm
Tax Shelter Annuity	Department and Vendor Forms	Office of the State Treasurer One Ashburton Place, 12 th Flr. Boston, MA 02108 (617) 367-3900	
Deferred Compensation	Payroll Authorization Card	Office of the State Treasurer One Ashburton Place, 12 th Flr. Boston, MA 02108 (617) 367-3900	http://www.state.ma.us/treasury/defcomp.htm or http://www.ingretirementplans.com/custom/mass
Savings Bonds	Savings Bond EE Form	US Treasury Savings Bond Office 10 Causeway Street, Rm. 463 Boston, MA 02222 (617) 565-6190	ftp://208.131.225.4/mar2152e.pdf
Commonwealth of Massachusetts Employee's Charitable Campaign (COMECC)	COMECC Form	Human Resources Division One Ashburton Place, 2 nd Flr. Boston, MA 02108 (617) 727-3555	http://www.state.ma.us/hrd/comecc/
MBTA Passes	MBTA Deduction Form	Office of the Comptroller One Ashburton Place, 9 th Flr. Boston, MA 02108 (617) 727-5995	http://www.state.ma.us/os/c/Payinfo/payroll/FormsOnDemand.htm
Commonwealth Fees	Payroll Deduction Authorization (PDA) for Insurance or other Employee Deductions	Office of the Comptroller One Ashburton Place, 9 th Flr. Boston, MA 02108 (617) 727-5995	http://www.osc.state.ma.us/Payinfo/payroll/FormsOnDemand.htm
U.Fund	MEFA Application	Office of the State Treasurer One Ashburton Place, 12 th Flr. Boston, MA 02108 (617) 367-3900	http://www.state.ma.us/treasury/UFUND.htm